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31 MARCH 1986

# China Report

ECONOMIC AFFAIRS

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31 March 1986

## CHINA REPORT

### ECONOMIC AFFAIRS

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PROVINCIAL AFFAIRS

CONTRACTS NEEDED IN ANHUI AFTER TAX-FOR-PROFIT SUBSTITUTION

Hefei ANHUI RIBAO in Chinese 20 Nov 85 p 2

[Article by Wu Lingen [0702 2651 2704], Xu Zhengping [6079 2973 1627], and Zhu Deqi [4281 1795 6386]: "After Substitution of Taxes for Profits, Contracts Still Need To Be Implemented"]

[Text] After implementing the second step of tax-for-profit substitution, in order to continue to strengthen enterprise vitality (especially large and medium-sized state-run enterprises) and to mobilize positive aspects of enterprises, enterprises still need to carry out their contract responsibility system with the authorities concerned. This observation was made by many comrades at the recently-held Anhui provincial theoretical discussion conference on strengthening enterprise vitality and is worthy of our attention.

Nineteen eighty-four was a year of great development in the implementation of the economic responsibility system in Anhui's enterprises. This was especially true in March, when the provincial party committee and the provincial government issued a "Report on Further Perfecting the Industrial and Commercial Enterprise Responsibility System" (Document 17 for short), many areas have learned from the experiences of agricultural reform and have introduced the "contract" to the city, generally pursuing a policy of making contracts the most important factor in the economic responsibility system in industrial and commercial enterprises, thus strongly encouraging increases in productivity and in economic results. The problem was that after the implementation of the second step of substituting taxes for profits at the end of last year, it was not clear whether the enterprises still needed to fulfill their contract obligations with the authorities concerned. There are varying opinions on this matter. One point of view is that after implementing step two of substituting taxes for profits, the relationship between enterprises and the state will be clarified and standardized by legal statutes, and therefore it will not be necessary to draw up any contracts. They even consider that still making contracts after substituting taxes for profits will be tantamount to putting on a rival show. As a result of this point of view, from January until April, Anhui's enterprise economic responsibility system did not develop very quickly; even now, there are many areas where it is not working out very well.

At the third Anhui seminar on strengthening enterprise vitality, held in Wuhu, several comrades summarized our province's actual experiences. Combining

theory with practice they answered questions on the necessity and feasibility of the contract system after substituting taxes for profits. They believe the following:

First, keeping the contract system after substituting taxes for profits is an objective measure necessary for developing and perfecting the enterprise external management responsibility system and for generally increasing enterprise economic results. Substituting taxes for profits was important for resolving the relationship between state-run enterprises and the state's distribution of economic benefits. However, the relationship between the two is not merely limited to the matter of the distribution of profits. As for how much production responsibility enterprises should bear for the state, how much profit they should generate, and other issues such as the enterprises' social benefits, solely relying on substituting taxes for profits will provide an overall solution. Only after implementing the contracts between enterprises to the state be clearly defined, the state's production plans (instructions and guidelines) and financial plans be implemented for enterprises, and the enterprises' production vitality harnessed. This is one kind of contract based on substituting taxes for profits, and its methods of taking taxes in exchange for profits are all carried out in accordance with state statutes regarding substitution of taxes for profits; hence it does not conflict with replacing profits with taxes, but rather complements it. If we were to say that the second step of substituting taxes for profits is a way of making sure we "acquire wealth," then contracts are a way of making sure that we "create wealth," allowing the state to steadily acquire more wealth. Experiences in many districts and enterprises in our province demonstrate that when enterprise leaders represent their enterprises at higher level sections and present annual profit goals and contracts for every economic objective, not only are enterprises encouraged to increase economic results, expand their scope of operations, increase production and sales, and bear more overall responsibility towards the state, but also enterprise managers are prevented from just seeking to make profits while neglecting the interests of society.

Second, continuing contracts after substituting taxes for profits is in line with the requirements of the restructuring of the economic management system. The CPC's Seventh 5-Year Plan proposes that the state's management of enterprises should gradually shift from direct control to indirect control; it stresses the use of economic and legal measures as well as the adoption of necessary administrative measures to control and regulate economic activity. It calls for the drawing up of a complete set of regulations for planning and marketing, using mechanisms to integrate microeconomic stimulation with macroeconomic control. For the time being, however, it is very necessary to implement contracts on the basis of substitution of taxes for profits, and there are also many advantages in doing this. It can lead to a more complete enterprise external responsibility system and inspection system. It can not only strengthen enterprise vitality and further enhance enterprise economic results, but also foster healthy development of management organization, guarantee that enterprises remain on the road to socialism and guarantee macroeconomic guidance from the state to the enterprises, thereby imbuing the socialist enterprises' range of powers and administrative jurisdiction with both separate and unifying characteristics. It can also help the responsible sections to exercise more fully their functions of "planning as a whole, serving, coordinating

and supervising." At the same time, it can help establish the factory director responsibility system by having the factory director consider both the enterprise's short-term profits and its long-term profit goals, introduce modern production techniques, develop new products and improve quality of production, all at the same time. It can also firmly establish relationships among the state, the enterprise and the workers in order to assure completion of enterprise productivity objectives.

Although continuing to implement contracts after substitution of taxes for profits is obviously suitable, scientific and effective, a number of specialists and scholars have pointed out that from Anhui's theoretical and entrepreneurial perspective, if several current problems are not resolved, there will still be difficulties in taking full advantage of the contract system after taxes are substituted for profits. The most critical problems are: how to choose realistic contract objectives which sufficiently reflect enterprise economic results and social benefits under conditions of differing enterprise situations and characteristics; how to integrate contracts with enterprise development strategies; how to relate management profits and enterprise personnel's remuneration with the contractor's economic benefits; how to handle the relationship between the contractor and administrative enterprise duties, etc. All these issues should and must be realistically investigated, researched, and systematically resolved.

Several specialists have also indicated that we need to deal correctly with shortcomings and problems which arise in the contracts. For example, some enterprises borrow contract funds for extra incentive funds or materials; some enterprises do not fully examine responsibility objectives, emphasizing profit and neglecting social benefits; some award enterprise leaders inappropriately and excessively, emphasizing material incentives; others do not base their actions on reality and make the contract a mere formality; some enterprises even falsify figures to the detriment of both the state and the consumer. These problems do not all arise from the contract responsibility system itself. Some are caused by lack of experience, some are created due to incomplete external circumstances, and some by the bad influence of harmful social tendencies. We need to make a complete analysis and study of problems in the contract system; taking an attitude of pulling the wool over our eyes and simply denying that any problems exist is unacceptable.

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PROVINCIAL AFFAIRS

REFORM BRINGS FAVORABLE CHANGES TO ANHUI'S COMMERCIAL WORK

Hefei ANHUI RIBAO in Chinese 16 Nov 85 p 3

[Article by Shang Zhengyan [0794 6774 6056]: "Reform Brings Favorable Changes to Anhui's Commercial Work: Increased Circulation of Commercial Goods, Increased Speed of Circulation, Implementation of 'Six Increases, One Decrease'"]

[Text] So far this year, Anhui's commercial departments have increased the volume and speed of commodity circulation; there has been the favorable situation of increases in the value of purchases, sales, shipments in, shipments out, exports and handling of industrial products while expenses have decreased.

Commercial sectors have made some great improvements in organizing the circulation of commodities. Two outstanding examples of this are: first, a noticeable result in purchasing more and selling fast was achieved. During the first 9 months of this year, because the volume of purchases and sales of commodities increased, gross profits have increased by 80 million yuan over the same period last year. Capital turnover was accelerated, reducing the time needed for the turnover from 159 days in the past to 129 days today. This alone resulted in a decrease of 400 million yuan in the use of bank funds and a reduction of 26 million yuan in interest costs. Second, management links were reduced and lateral contacts were expanded. During the first 8 months of this year, the total amount of direct purchases of commercial goods by Anhui commercial sections from factories inside and outside the province increased 1.5-fold over the same period last year. Direct purchases by wholesale enterprises at the grass-roots level also increased. According to statistics from 74 county-level wholesale enterprises, the amount of direct purchases from factories during these 8 months was almost twice as great as it was during the same period last year; various types of enterprises jointly managed by counties, municipalities and provinces were established in all areas.

This year, reform of the commercial structure is progressing more rapidly. In Anhui there are now over 3,000 independently-operated small-scale retail businesses, and catering and service trades; already, 64 percent of government collectively-managed enterprises still have collective control but are leased or assigned to individual managers. Business and personnel management have been positively improved all over and economic results have increased noticeably. Wuyi Food Station in Chusian County lost 7,000 yuan in the first half of the year, but starting in July it was put under government collective management and in that same month it earned a profit of 18,000 yuan. Hefei City has

opened 84 small catering and service trades; their profit in the first 8 months increased by 80 percent over the same period last year and they have paid the state over 50 percent more in taxes.

Since removal of pork price controls, productivity has grown, more fresh meat is on the market, and prices have stabilized. State-run food companies have definitely improved management and administration, making them more suitable. The removal of price controls, therefore, is clearly a case of every cloud having a silver lining.

Provincial commercial departments realized that from the fourth quarter of this year until the period before the spring festival, currency circulation was concentrated and markets still had potential destabilizing factors. Therefore, they must keep reform as their central goal, plan for a busy market-season as a point of departure, reform and improve management, and carefully restructure for optimum managerial effectiveness.

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## ECONOMIC PLANNING

### CONFERENCE ON ANHUI'S ECONOMIC PLANS DISCUSSED

Shijiazhuang HEBEI RIBAO in Chinese 19 Dec 85 p 1

[Editorial: "Do A Good Job in Strategic Deployment; Seek Victory in the First Battle"]

[Text] As the Sixth 5-Year Plan approaches a successful conclusion and the Seventh 5-Year Plan is about to commence, the convening of the Provincial Conference on Planning Work by the provincial government is of great significance.

An outstanding success of the conference was its study and suggestion of ideas of strategic economic dispositions and plans for the implementation of the Seventh 5-Year Plan in the province and the development of focal points, and the decision to focus on the Shanhaibei regions in the development of light industry, textiles, and township and town enterprises. This decision was based on the historical experience and present economic situation in the province, completely suits the real situation and manifests the special characteristics of economic construction in Hebei.

The development of the Shanhaibei regions occupies an important strategic place in the economic construction of Hebei. These three regions possess a vast territory, an abundance of natural resources, and great potential for the development of the forestry, fruit, animal husbandry, mining, fisheries and tourist industries. Due to the past "leftist" influence, the great biological and mining natural resources of the areas' vast uncultivated lands, grasslands, beach areas, and bodies of water have not been fully exploited and utilized. Once the regions' natural resources are exploited and utilized, it will be highly advantageous to the rapid development of the commodity economy and will greatly promote the economic takeoff of the entire province.

Little investment is required in light industry and textiles, while much is produced with great capital accumulation. The presence of these industries in Hebei is advantageous to the province. Light industry and textiles in Hebei have an abundance of raw materials and a strong foundation, but due to an irrational industrial structure, there has not been enough depth to product processing. The same uncompetitive unified system which has had a negative



effect on economic returns for years has been used. By giving priority to the development of light industries and textiles, revenues and accumulation can be increased to a fairly large extent. It will also have an important effect on the creation of foreign exchange via exporting, satisfying the needs of the people for consumer goods and in alleviating the energy shortage. The development of these industries will play an obvious vital role in stimulating the economy of the entire province.

Making great efforts to development the township and town enterprises and resolving the problem of enriching the countryside while ensuring a steady increase in grain production are necessary in stimulating the rural economy, have been affirmed by the proposals contained in the Central Committee's Seventh 5-Year Plan, and have been demonstrated as correct by the experiences of economically developed regions. Hebei's township and town enterprises have developed rapidly in recent years, but due to a late start, a poor base, and other reasons, are still fairly backward. Development remains uneven. Some areas have yet to seriously create any township and town enterprises to this day and the lives of the masses there are still difficult. If this is not changed soon, it will be impossible to further accelerate the pace of rural economic development, which is something that will effect the development and prosperity of the entire national economy. Therefore, developing township and town enterprises is an important component part of the enlivening of the entire province's economy.

Our taking the development of the Shanhaibei regions, light industry and textiles, and township and town enterprises as the strategic center of the Seventh 5-Year Plan has a profound meaning in relation to the development of Hebei's share of the national economy. However, this does not imply that we can relax work in other regions and industries. Each region and department related to the national economy must make full use of its own advantages and find its own way to seek sustained, stable, coordinated, planned, and proportional development during the Seventh 5-Year Plan.

Next year, the first year of the Seventh 5-Year Plan, it is necessary to implement strategic plans and develop focal points in Hebei's economic construction do a good job of the first year's work and seek victory at the first battle. Each region must further clarify the guiding ideology, develop focal points, designate preliminary measures, and arrange plans for social development and the development of its share of the national economy in order to ensure the genuine implementation of strategic plans in order to ensure the genuine implementation of strategic plans for economic construction and the development of focal points in Hebei. To accomplish this, all levels of leadership must further improve their workstyles, understand the overall situation, seek unity, stress actual results, compete to contribute adhere to the reform, and emphasize economic returns to promote the sustained, steady, coordinated development of the national economy and build a firm foundation for the first stage of the Seventh 5-Year Plan.

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ECONOMIC PLANNING

ANHUI CONFERENCE ON URBAN ECONOMIC REFORM HELD

Conference Proceedings Summarized

Hefei ANHUI RIBAO in Chinese 24 Dec 85 p 1

[Article by Niu Qiubi [3662 3061 6582], Li Xiangmin [2621 4161 2404] and Jiang Keping [5592 0344 1627]: "Provincial Conference on Overall Urban Economic Reform Convened in Fengqu, Prepares Plans for Next Year's Urban Reform Work; Implement Measures, Consolidate Victories, Further Improve Urban Reform"]

[Text] The Provincial Conference on Overall Urban Economic Reform was held in Bengbu City from 18 to 22 December. At the conference, experiences in our province concerning the overall economic reform over the last year were reviewed and exchanged and tasks for next year's reform were proposed. Governor Wang Yuzhao [3769 6735 2507] and the provincial CPC committee deputy secretary, Lu Rongjing [4151 2837 2529], addressed the conference. The assistant chairman of the provincial advisory board, Cui Jianxiao [1508 0494 2556] and deputy chairman of the standing committee of the provincial people's congress, Su Hua [5685 2901] attended. Zhang Da [1728 1129] presided on behalf of the vice governor, Sung Ming [1345 2494], who passed on a report regarding the spirit of the National Conference on Technological Progress. Organs directly subordinate to the various prefectures, cities and the province, and responsible persons from some overall reform test counties participated.

This year fairly great progress was made in Anhui's overall urban economic reform. The central link of strengthening enterprise resources and vitality was stressed, as were streamlining administration, decentralization, and reforming the enterprise leadership system. Further progress was made in improving the various forms of economic responsibility systems. At the same time, an overall reform of the county-level economic system was energetically implemented which enhanced the development of Anhui's share of the national economy, and industrial development took an unprecedented turn for the better. It is estimated that this year's provincial GVIO will reach 22 billion yuan, a 20-percent increase over last year. New breakthroughs have also been made in revenues, which may attain an estimated 3 billion yuan for the year, for an increase of 23.1 percent compared to the year before, surpassing the growth rate for production. Reform in production circulation has brought prosperity to provincial markets, with an estimated gross retail commodity sales value of 14.1 billion yuan this year, for an 18 percent increase over last year. The people's standard of living has clearly improved.

It was pointed out at the conference that as next year is the year for an in-depth development of the overall reform with the cities as focus, we must follow the revolutionary orientation, principles, methods and plans of the resolution of the CPC Central Committee concerning the overall economic reform and the proposals of the Seventh 5-year Plan, to dramatically and soundly advance the reform. The overall demand is to further implement the already confirmed reform measures, consolidate the fruits of the reform, enhance the ability of the enterprise to absorb and "digest," and based on practice and experience, to gradually perfect and complete the reform.

In order to accomplish this, the following must be stressed: 1. Further strengthening enterprises, especially state-run large and middle-sized enterprises. We must internally and externally create a better environment and conditions for enterprises, and augment their ability for self-development and self-reform. From the external approach, we must resolutely engage in administrative streamlining and decentralization. Enterprises that have already been targeted for decentralization should be decentralized as rapidly as possible. Such enterprises must be decentralized in all areas, as we should not "put down the bowl without putting down the chopsticks." The cities must also streamline and decentralize. Enterprises there must not have their powers reduced. From the internal approach, we must continue to advance and improve the factory director (manager) system of responsibility, especially the merit tenure management system, and ceaselessly seek to perfect the various system of internal economic responsibility within the enterprise, increase enterprise accumulation, accelerate the speed of enterprise technological reform and further invigorate small enterprises while also strengthening large and medium-size enterprises.

2. Greatly develop the commodity market under the guidance of planning, breaking administrative and geographical boundaries to organize according to the rational direction of commodity flow, and with the city as center, internal and external integration and urban-rural integration, and to create multilevel, economically effective networks of open door socialist systems of circulation, making great efforts to open up means of production and technological markets and enliven channels of labor circulation while developing the market for commodities of daily use.

3. Invigorating funding harmony and raising the capital utilization rate. The disposition of capital must be adequately concentrated and used in key areas to gain economic returns. The focus of investment in capital construction must be on economical projects with reserve strength that can gain good results rapidly. Investment in technical innovation must center on projects that can be quickly implemented, that suit our level of technological development, and that will produce rapid economic results. The focal point should be on expanding production of products in short supply, improving quality of inferior goods, increasing product variety, and on profitable enterprises with a high capital turnover rate that can create much tax revenue. Financial departments must understand the concepts involved in developing commodity production and the energetic cultivation of financial resources. Everyone must learn how to create, accumulate, and utilize wealth. A limited capital market must be created to centralize social capital.

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4. Continuing overall economic reform at the county level. We must stimulate the county-level economy as rapidly as possible via decentralization, the granting of power and provision of policies and measures. The rights stipulated in Document No 12 (1985) of the provincial CPC committee and government can, in principle, be applied in all counties. Departments directly subordinate to the province must consciously take the initiative to improve service and guidance work in test-site counties.

#### Urban Economic Reform Promoted

Hefei ANHUI RIBAO in Chinese 24 Dec 85 p 1

[Commentary: "Press the Reform in a Deliberate Fashion"]

[Text] This year's reform in Anhui's urban economic system, via administrative streamlining and decentralization and measures to reform the enterprise management system, further improve the various forms of economic responsibility, release restrictions on small state-run industrial and commercial enterprises, develop horizontal economic relations, and enliven circulation, has led to a great increase in enterprise strength, and has promoted the development of the national economy. Practice has shown that the direction of the reform is correct, that its experiences have been successful and that its achievements have been remarkable. The Provincial Conference on Overall Urban Economic Reform created opportunities for the timely review and exchange of these experiences and made preparations for next year's work, which will have an important effect on the healthy development of overall urban economic reform in Anhui.

However it must be observed that the development of the reform has not been even. Some units and localities have not been sufficiently enthusiastic in their actions and have been lacking in a sense of urgency. Therefore, we must strengthen leadership, implement categorized guidance according to the needs of consolidation, absorption, compensation, and improvement, seek truth from facts and further implement reform measures that have already been confirmed and strive for new developments in next year's urban reform work.

The overall urban economic reform is a gigantic, complex systems project, vast in scope and entailing many difficulties. It involves problems of understanding and conflicts of interest. Some people, accustomed to the traditional way of living, have not recognized the necessity of reform. Some people feel dissatisfied and have complaints due to rearrangements of positions of power. Education of such people must be intensified, their mental blocks erased and their understanding unified via the series of resolutions and instructions of the CPC Central Committee on the overall economic reform. We must definitely alter our style of work, orient ourselves toward the grassroots, obtain an in-depth understanding of the real situation, guide according to categories and achieve success. The provincial CPC committee and government have decided to engage in comprehensive inspection of all counties that have performed work in overall economic reform at the end of next year to review the results of their labor. It is hoped that all regions will compete with each other to welcome the inspection with an abundance of successes in opening up and reform.

Reform entails comprehensive work. If we wish for success, several complete projects must be carried out at the same time. The integrated departments of the provincial CPC committee must appropriately advance the demands of the urban reform, on stimulating the microeconomy and enhancing macroeconomic controls and making an effort to create a new system that relies on economic methods and utilizes macroeconomic management. The supervisory industrial departments should accelerate their efforts to gradually shift from direct management over enterprises to indirect, professional management and coordinated services. Simultaneous reform in the key fields of planning, goods and materials, finance, foreign trade, personnel, labor, commodity prices, and industrial and commercial administration.

In short, we must have a sense of urgency about the urban overall economic reform, and must resolutely implement already confirmed principles and policies and constantly study how to resolve newly emerging problems to solidly advance the reform forward.

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ECONOMIC PLANNING

STATE ECONOMIC COMMISSION'S LU DONG DISCUSSES REFORM

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 12 Jan 86 p 1

[Article by RENMIN RIBAO reporter Zhang Heping [1728 0149 1627] and XINHUA reporter Huang Fengchu [7806 1144 0443]: "National Economic Work Conference Discusses Plan To Fight First Battle Well for Construction Under Seventh 5-Year Plan; Lu Dong Stresses Deepening Reform To Strengthen Management and Raise Results"]

[Text] During the Seventh 5-Year Plan period, China's economic work must proceed steadily along the course of improving economic results by carrying out reform in depth and strengthening management so as to set a course of socialist economic management with Chinese characteristics. This was a proposal made at the national economic work conference which opened in Beijing yesterday. Attending the conference were central leaders Tian Jiyun [3944 4764 0061], Yao Yilin [1202 0181 2651], Chen Muhua [7115 1970 5478], Zhang Jingfu [1728 0513 1133] and Song Ping [1345 1627].

Lu Dong [0712 2639], minister of the State Economic Commission, delivered a report entitled "Deepen the Reform, Strengthen Management and March Forward Steadily Along the Track of Raising Economic Results." Reviewing China's economic work situation during the Sixth 5-Year Plan period in his report, Lu Dong also made emphatic demands on issues dealing with economic development and the strengthening of enterprise management during the Seventh 5-Year Plan period. He said that the Seventh 5-Year Plan period is a crucial period of China's economic reinvigoration. During these 5 years, we must transform and create a good environment so as to develop and prepare followup forces from this time forward and at the same time continue to improve the people's standard of living. We are facing mounting contradictions. There are two keys to solving these contradictions: One is to vigorously raise the economic results of enterprises and the other is to energetically enhance the ability to earn foreign exchange through export. A most realistic way to solve these two key issues is to energetically improve the quality of enterprises and explore the tremendous inherent potential among the enterprises. The urgent matter at the moment is to establish management methods and systems adaptable to changes in the role and functions of enterprises.

Lu Dong laid out the economic work for 1986 in his report. He said that we should sustain stable economic growth and create conditions for further reform. With regard to the reform, the general principle is to solve outstanding problems which have cropped up in the course of the reform through consolidation, assimilation, supplementing, perfecting and by retaining advantages and discarding disadvantages. As to economic development, we should strengthen and improve macroeconomic control, adopt adequate policies by dealing with each region and situation on its merits, arrange production well and ensure continual, steady, and balanced national economic development. With regard to rural reform, we should implement in real earnest the guidelines embodied in pertinent documents of the CPC Central Committee and the State Council and make new contributions toward agricultural development. In urban reform, we should continue to concentrate on this central link of enhancing the vitality of enterprises.

Lu Dong said that we should continue to organize production and circulation in 1986 by concentrating on improving economic results and by properly handling the relations between speed and results, between quantity and quality, between production and the market, and between domestic and overseas marketing. We must maintain an adequate growth rate.

Lu Dong concluded that this year marks the first year of the Seventh 5-Year Plan, and we must, under the leadership of the CPC Central Committee, take positive action, improve the workstyle of the leading organs, go deep into realities and fight the first battle well in construction under the Seventh 5-Year Plan by mobilizing and relying on the people of the whole country.

Yuan Baohua [5913 1405 5478], vice minister of the State Economic Commission, also spoke at the conference about how to develop spiritual and material civilizations simultaneously, energetically strengthen the building of the ideological style of the leading bodies targeted on straightening out the party style and improving and strengthening ideological and political work among workers and staff members.

12662/9312

CSO: 4006/675

## ECONOMIC PLANNING

### SHANGHAI'S RUI XINGWEN REPORTS TO PARTY CONGRESS

OWO41849 Beijing XINHUA in English 1835 GMT 4 Mar 86

[Text] Shanghai, March 4 (XINHUA)--China's leading industrial city of Shanghai will concentrate on infrastructure construction, import of more foreign funds, increase of exports, technological progress and training of personnel, according to a municipal leader.

Addressing the fifth municipal congress of the Chinese Communist Party yesterday, Rui Xingwen, secretary of the municipal party committee, said the above tasks are key to turning Shanghai into a modern city.

He outlined the major targets of Shanghai's Seventh Five-Year Plan (1986-1990) as doubling the gross national product in 1990 compared with 1980, raising the proportion of the tertiary industry to 30 percent of the GNP as against the 26 percent at present, and raising the proportion of export commodities from 30 percent of the GNP to 40 percent.

The consumption level of both urban and rural residents in Shanghai will rise six percent each year, according to the secretary.

The infrastructure projects, he said, include the second tunnel under the Huangpu River, two highways from the city proper to satellite towns of Jiading and Songjiang, several overpasses, an underground railway, a new railways station, shipping berths and expansion of airport terminal building.

Imported technology and funds will be mainly used on the key infrastructure projects, production of export commodities and major items of technical transformation.

He also called for updating the traditional industries with new technology, narrowing the technical gap between Shanghai and the advanced world level, and developing high-technology products, brandname goods and export commodities.

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CSO: 4020/245



ECONOMIC PLANNING

FUZHOU'S ECONOMIC BASE, DEVELOPMENT PROSPECTS EXAMINED

Beijing DILI ZHISHI [GEOGRAPHICAL KNOWLEDGE] in Chinese No 12, 1985 pp 7-8

[Article by Chen Hang [7115 5300] "Fuzhou's Economic Foundation and Development Prospects"]

[Text] Fuzhou is a coastal city and provincial capital that has opened its doors to the outside. What is the state of its economic foundation? What are its strengths that can be brought into play? What will its future development be like? These are among the concerns of numerous people. Below is a brief analysis of the situation based on our own research.

Strengths and Weaknesses of Economic Foundation Are Distinct

Fuzhou's economic development has been affected by its history and environmental factors. The clear distinction between strengths and weaknesses in the economic foundation is a characteristic of this economy.

Small and light manufacturing is the main component of industry in Fuzhou; the development of heavy industry lags behind. Formerly industry was extremely backward in Fuzhou, but after 30 years of hard work, industrial output value reached 3.3 billion yuan in 1984, which is a 146-fold increase over 1950. Fuzhou's output value was more than one-quarter that of the entire province. But because industry in Fuzhou largely grew out of handicrafts, newly constructed large and medium mainstay factories are few in number and enterprises are generally on a small scale. As of 1983, there were a total of 15 large- and medium-size enterprises in the metropolitan area which accounted for only 1.2 percent of all enterprises; their output value was only 17.4 percent of the GVIO. There is a fairly complete range of industries in Fuzhou; among the most important operations are machine, chemical, food, and textile industries, as well as the production of cultural, educational, and artistic materials. These together account for 82.7 percent of the total output value. However, electronics and household goods dominate the machine industries and processing of plastics and common chemicals makes up more than half the output value in the chemical-engineering industry. Looking at the entire industrial structure, small-scale and light industrial manufacturing still dominate the industrial scene.

Transportation and shipping are relatively convenient with water and railways being the most important components. Before the liberation, shipping and

transportation were backward in Fuzhou. The 1959 Wai Fu [Overseas-Fuzhou] Railway, the opening of a regular air route in 1974, and the completion of basic port facilities at the Mawei harbor in 1975, along with more than 30 years of uninterrupted expansion and construction of highways, have made Fuzhou the transportation and shipping hub of Fujian. The numerous transportation and shipping lines involve highways, railroads, rivers, the air, and the sea. Transportation to other areas is also convenient; 30 counties and cities within the province can be reached directly by road as can areas outside the province such as Guangzhou, Shenzhen, Hong Kong, Zhuhai and Wenzhou. The important industrial cities within the province can be reached directly by rail as can Beijing, Shanghai, Guangzhou and more than 11 other provinces and cities along these lines. Nanping can be reached directly by river transport; coastal areas of China and many locations worldwide can be reached by sea; many large cities, including Beijing, Shanghai, Hangzhou, Nanchang, Guangzhou, and Hong Kong can be reached by air.

The level of intensive agriculture is high, but the internal organization of agriculture still needs improvement. Natural conditions in the Fuzhou area are very good: flatlands cover a relatively large area, the climate is warm and damp and the soil is rich. Because development began early, irrigation facilities are very good. The population density is high with an average of 410 people per square kilometer, which is only below that of the lower reaches of the Pujiang area in southern Fujian. The abundance of agricultural labor and the adequacy of fertilizer, water, and electrification together form the proper conditions for a high level of intensive cultivation. At present, each tillable mu on the average produces about 1,300 jin of grain. But the forestry, fruit, livestock, sideline, and fishing industries are all inadequately developed. And within the overall scheme of plant cultivation, grain production accounts for an excessively large proportion. In 1983, grain production comprised more than three-fourths of total output value for the plant cultivation industry; cash crops accounted for only 9.5 percent of the total and tea, silkworms, and fruit trees together accounted for only 3.6 percent of total output. In rural villages, agricultural byproducts comprised only about 30 percent of commercial products and the per capita income of farmers still has not reached 300 yuan. Basically it is still a closed, self-sufficient type of agricultural economy that is far from meeting the present exigencies of the open door and the development of industry.

Energy supplies are tight, seriously hindering Fuzhou's economic development and economic returns. The Fuzhou area lacks coal and oil for electricity and hence depends on their transfer from other areas; its electricity is mainly supplied through northern Fujian's electricity network. Because the shipping and transport of coal and oil are inadequate, deliveries are greatly restricted, causing Fuzhou to depend heavily on northern Fujian's electricity network and hydroelectric power. During the dry season, however, not quite two-thirds of the normal volume of electricity can be supplied. This serious energy shortage is a great obstacle to Fuzhou's economic development and to increased economic returns. Not only does this situation make it difficult to meet the future requirements of economic expansion and the open door, but even present demand for electricity for production and daily living can hardly be met.

## Strengths and Prospects for Development

From the above, it can be seen that Fuzhou has realized unprecedented economic growth since the liberation. However, its actual economic strength is not equal to its role as a large provincial capital. Thus, Fuzhou must take advantage of the open door, extol the long run over the short run and quicken the pace of development. In this context, what are Fuzhou's advantages?

First, sea and river transport from Fuzhou is excellent. Fuzhou is located on the southeastern coast of China near the mouth of the Min Jiang. Facing the sea with a backdrop of mountains, only the sea itself separates it from Jilong in Taiwan. The Min Jiang basin covers an extensive area. The important coastal cities of China and points worldwide can be reached via the ocean. Consequently, early in history Fuzhou was the main merchandise exchange and distribution center on the southeastern China coast and was also an important foreign trade port. The hinterlands of the Fuzhou area include the four prefectures and cities of Fuzhou, Sanming, Jianyang and Ningde; the area and its GVIO make up three-fifths of the entire province and its population and GVAO are more than half of the entire province's. This area is traditionally the most important area for tea and forestry in China, and its water resources hold a crucial position in eastern China. The most important fisheries in Fujian are in eastern and central Fujian. Various nonmetallic mineral resources like granite, river sand, and pyrophyllite are very plentiful; its reserves of pyrophyllite lead the nation. Production of grain, oils, vegetables, and seeds each account for between 55 and 80 percent of Fujian's totals. Fuzhou, Sanming, Nanping and Yong'an are the main centers of industry in Fujian.

Fuzhou has a harbor at a river's mouth and the conditions are excellent for port construction. The Min Jiang has a heavy volume of flow, but carries little sand. The south harbor and the Meihua channel on the south side of Nantai and Langqi islands in the lower reaches of the Min Jiang can be used for flood discharge and sand deposits. The reason is to guarantee that the main navigable channel located at the Changmen north port on the north side can maintain a great and stable water depth. Add to this the significant tidal variation, which averages about 4 meters, and the conditions are present for large ships to enter and leave. At the same time, the islands of Culu and Chuanshi beyond the mouth of the Min Jiang act as a screen that provides nearly ideal protection. Along the bank, water depth is sufficient for ports for a stretch of 10 to 20 km.

In the Fuzhou area, other than Min Jiang harbor, there are the Luoyuan Straits which are capable of docking 100,000 to 200,000 ton oceangoing vessels. The straits are located about 80 km north of Mawei and are conveniently reached by rail, thus Fuzhou and Mawei can jointly take advantage of them.

Second, Fuzhou's proximity to both mountains and sea is advantageous. To the west of the Fuzhou area, the terrain is steep; to the east are lowlands. Most of the area is below the mountains and hills, which makes it suitable for the development of fruit orchards, forestry, tea, livestock, and sideline industry. Also the Fuzhou plains and the plains along the east coast channel are the only two areas in the province where cultivation is excellent. Furthermore,

this area is located in the transitional zone between the southern and central tropics; it is a subtropical climate marked by maritime winds. The average yearly temperature is 20°C and there are 330 frost-free days a year; the yearly precipitation is between 1,200 and 1,700 millimeters. There are four distinct seasons with long summers and short winters making this an excellent area for plant and tree cultivation. Fuzhou's coastline is long, about one-sixteenth of China's entire coastline. There are many bends and straits in it and the sea has a multitude of islands. Haitan is the largest of Fujian's islands and it is both near the coast and various other islands. Because the Min Jiang, the Ao Jiang and the Long Jiang are high in bait, fish spawn well and grow quickly; also the varieties are numerous and the volume is heavy. It is an excellent ocean fishing ground. The coast also has numerous beaches suitable for the development of seafood hatcheries. The preponderance of natural resources and the multifaceted geography should stimulate the development of various industries with a plethora of managerial systems.

Third, Fuzhou has a solid foundation of foreign contacts which should accelerate growth. Since opening up, Fuzhou has quickly developed a wide variety of connections, exchanges, and cooperative efforts with foreigners. Between 1979 and 1983, in all of Fuzhou 7 joint-capital ventures and 13 cooperative ventures were initiated. More than 330 projects in which materials are brought in for processing or assembly have been made; 23 compensation trade arrangements have also been established. In that same period, 13 contracts were signed between Fuzhou and foreigners. Trade relations have been established with more than 50 nations and areas thus far. Fuzhou has many places that are native to emigrants; according to calculations, about one-fifth of those residing in Fujian are overseas Chinese and there are many who have relatives overseas. For the most part, they can be found in Fuqing, Fuzhou, Changle and Mingqing. No doubt this is a point to be taken advantage of in Fuzhou's future economic development.

Fuzhou has many famous historical sites and tourist resources. Fuzhou early on opened up the eight bodies of water of Fujian, which with numerous historical sites and gorgeous views, has the most famous scenery and collection of classical relics and remains in Fujian. The main attractions in the Fuzhou metropolitan area are West Lake, Mt Gu, Mt Yu, Mt Niaoshi, Mt Yantai's Luoxing pagoda and Xichan temple and the Mt Jin temple. In the various counties are Qingzhi temple, Snow Peak, the Fangguang cliffs, the Ji cliffs and White Mountain. In all, the Fuzhou area reflects the natural beauty of magnificent peaks and serene gullies as well as the simple refinement of ancient relics and sites. These famed historical sites are the basis upon which to build tourism.

Based on the aforementioned analysis, the future development of Fuzhou should center on looking outward, expanding contacts overseas, developing foreign trade and steadily working toward economic and technical cooperation. This should spur the development and transformation of the national economy. Thus it is essential to focus efforts on making Fuzhou harbor the center of both transportation and communication networks so that domestic and foreign contacts with the four corners of the globe be unimpeded. Mawei's role as Fuzhou's base for arranging joint investment with concerned departments at various levels, for absorbing foreign and overseas Chinese capital, for attracting advanced



technology, for transforming existing industries and for launching new industries must be enhanced. There should be steady improvement in Fuzhou's infrastructure facilities and it is especially crucial to establish electricity sources and energy supplies that meet the needs of the new circumstances. The agricultural structure must be reorganized and the level of commercialization must be substantially raised to help satisfy the requirements of foreign trade, light industry, and the steadily rising standard of living. Famed historical sites and the strengths of overseas Chinese native areas must be fully utilized in advancing the tourist industry and various tertiary production industries so that funds can be accumulated for economic development and urban construction.

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ECONOMIC PLANNING

EXPORT-ORIENTED ECONOMY STRESSED FOR GUANGZHOU

OW052214 Beijing XINHUA in English 1902 GMT 5 Mar 86

[Text] Guangzhou, March 5 (XINHUA)--Development of export production is the top priority of Guangzhou, capital of south China's Guangdong Province, acting Mayor Zhu Senlin said here today.

Speaking to members of the city's people's congress, Zhu said the city will concentrate on increasing exports of machinery, textiles, manufactured goods, food and farm-related products.

In part, he said, this will be accomplished by building export production centers and developing new products for abroad. But, he added, "We must extend trade to Europe, the Americas and Australia and New Zealand."

Zhu said he expected industrial output value to rise by 10 percent this year to 18.74 billion yuan, of which six percent of 1.6 billion yuan would involve agriculture.

"Production should be helped by the wider application of nationwide economic reforms," he said. "The city will give its enterprises more decision-making power and encourage them to cooperate on their own."

At the same time, said Zhu, the city will "accelerate its technical renovation" of existing enterprises. Foreign investment will be mainly used for energy and transportation projects such as harbors, the acting mayor said, and for industries producing food, textiles, electronics, household electrical appliances, garments and new building and industrial materials.

He said, "Import emphasis will be on essential new equipment and on technical software and expertise to update our products."

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CSO: 4020/245

AGGREGATE ECONOMIC DATA

ANHUI TOWNSHIP, TOWN ENTERPRISES ACHIEVE GOOD RESULTS IN 1985

Results Detailed

Hefei ANHUI RIBAO in Chinese 3 Jan 86 p 1

[Article by reporter Li Zhefu [2621 0772 1133]: "Anhui's Peasants Distinguish Themselves During the Second Stage Rural Reforms; Anhui's Township and Town Enterprises Advance in Giant Strides with Gross Output Value Expected To Reach 8.5 Billion Yuan in 1985, an Increase of 84.78 Percent over 1984; Marked Increase in Profit and Tax Deliver Expected"]

[Text] In the vast Chang Jiang-Huai He region, hundreds of thousands of peasants have smashed the shackles of natural economy and energetically developed commodity production to distinguish themselves during the second step of the rural reform. Anhui's township and town enterprises that came into being in 1984 continued to develop steadily in 1985 bringing about an unprecedented new situation. It was estimated that the gross output value of township and town enterprises throughout the province would reach 8.5 billion yuan in 1985, an increase of 84.78 percent over 1984. Out of which the output value of industries at the township and town levels would reach 3 billion yuan, one-sixth of Anhui's GDO. Anhui's township and town enterprises made more than 1 billion yuan in profit and delivered more than 300 million yuan in tax, both showing a marked increase as compared with 1984.

In the course of implementing CPC Central Committee Document No 1 of 1985, the provincial CPC committee and the provincial government regarded the development of township and town enterprises as one of the key strategies of reinvigorating Anhui's economy and an important breakthrough in readjusting the agricultural structure; they loudly publicized that the source of strength in developing township and town enterprises rested with thousands upon thousands of households and they also encouraged the peasants to vigorously develop commodity production. Tens of thousands of township and town enterprises sprang up, particularly those run by households and joint households which also developed swiftly and vigorously. According to incomplete statistics, here were more than 678,000 enterprises run by households and joint households throughout the province realizing an output value of more than 3.7 billion yuan, more than doubling that in 1984.

Anhui's township and town enterprises have developed swiftly and steadily with important hallmarks: 1) The development of enterprises was based on thousands upon thousands of households. Economic districts in which a household leading a village, a village leading a general area, and one village turning out one product are prevalent everywhere. The output value of enterprises run by household and joint households rose from 30 percent of the gross output value in 1984 to 44 percent and is still rising at present. 2) Emphasis on transforming existing enterprises by intensive means, limiting the building of new ones to a minimum. Most of the newly developed enterprises at the township and town levels throughout the province belong to the building materials industry, processing industry for farm produce and sideline products, food industry, and tertiary industry. The output value of rural tertiary industry in 1985 alone came to 1.83 billion yuan, accounting for 20 percent of the gross output value. 3) Urban industry has made a new step in spreading out toward rural townships. The output value of dispersed products in 1985 had sharply increased from more than 40 million yuan in the past to more than 300 million yuan. By establishing lateral ties with the economically developed areas, township and town enterprises throughout the province have jointly developed and run more than 2,400 projects, drawn in more than 90 million yuan in funds and more than 3,400 qualified personnel. 4) The advantages of resource have been given full play. The output from township and town small coal pits throughout the province came to 2.5 million tons and the cement output amounted to 2 million tons; the output of marble (unpolished) was expected to exceed 35,000 cubic meters. The advantages of resources in numerous places had not only become advantages for producing commodities but also economic advantages bringing about faster development of the processing industries, especially those processing farm produce and sideline products, forest timber, and native and specialty products in the main.

The growing proportion of township and town enterprises in the national economy has brought about a readjustment of the production structures in the countryside. It was estimated that the output value of Anhui's township and town enterprises would rise from 10.2 percent in the gross output value of society throughout the province in 1984 to 16 percent in 1985; the output value of industries at the township and town levels would increase from 10 percent of the provincial GVIO in 1984 to 16 percent in 1985; and the tax delivered would increase 87 percent over 1984. The development of township and town enterprises provided a way for shifting the rural surplus labor force. Anhui's township and town enterprises employed 3.31 million people, 17 percent of the rural labor force. The proportion of the output value of rural and township enterprises in the output value of the rural society rose from 21 percent in 1984 to 36 percent in 1985. Calculated on the basis of the rural population, the per capita output value created would increase from 111 yuan in 1984 to 201 yuan in 1985, an increase of 81 percent. The per capita income of 193 yuan represented a 90-percent increase over 1984.

With the development of township and town enterprises, cadres energetically concentrating on operations, learning management and exercising overall control of the economic situation and peasants studying common knowledge, science, and technology have now become common practice. A generation of new-type peasants is reaching maturity. In 1985, Anhui had trained more than 50,000 qualified people of various categories for township and town enterprises.



Hefei ANHUI RIBAO in Chinese 3 Jan 86 p 1

[Commentary: "Township and Town Enterprises Should Be Developed Still Further"]

[Text] The rapid development of township and town enterprises in recent years has shown day by day its role in changing the rural production structure and in developing the rural commodity economy. As pointed out in the proposal of the CPC Central Committee for the Seventh 5-Year Plan: "Developing township and town enterprises is the essential way to revitalize China's rural economy."

All kinds of skepticism and controversies have appeared in society as the second stage rural reforms in Anhui Province progress in depth, of which the most-discussed issue has been the township and town enterprises. As a result of financial stringency since 1985, some people have advocated "seeking of uniformity in everything" and "putting on the brake instantly" and so forth on township and town enterprises. This is obviously unfair. Anhui's township and town enterprises have indeed developed rapidly in recent year, but they were not developed unrealistically. The rapid development of township and town enterprises is the natural outcome of the output-related system of contracted responsibility which was vigorously advocated, encouraged, and supported by the party and the government. Of course, unrealistic development in disregard of needs, funding, raw materials, and the market occurred in some places, but it is not an overall issue after all. We should realize that Anhui's township and town enterprises have been developing normally and healthily in spite of a weak foundation and a late start. In spite of faster development in recent years, compared with fraternal provinces and municipalities, especially the various provinces in east China, we still remain backward. The problem of so-called developing at excessive speed does not exist whatsoever and there is no reason for us to curtail or control it, we should, instead, aim for unswerving energetic development.

It is the responsibility of the leading government organizations at all level, mass organizations, and various professions and trades to support township and town enterprises. Judging from the situation in recent years, the development of Anhui's township and town enterprises has the support of numerous departments and units. However, lacking understanding of the far-reaching significance of developing township and town enterprises some departments and units do things in their own way with a departmental perspective instead of proceeding from taking the interest of the whole into account. For example, the issue of channeling goods and materials to some township and town enterprises has not been solved properly all along, even raw materials for making brand name products and products earning foreign exchange cannot be assured. Some departments have failed to give effective operational guidance to township and town enterprises of the same trades. In spite of their high-sounding verbal support, they tried to shift responsibility onto others whenever they are actually needed to help solve problems. All this is sufficient to show that it will be impossible to develop township and town enterprises in a big way without bringing about a major change in the ideological understanding of the

leadership of departments and trades concerned. We must foster the concept of coordinating all activities of the province like pieces in a chess game.

As in all other work, the key to large-scale development of township and town enterprises lies in the leadership at all levels. In places where the leadership attaches importance to township and town enterprises, work can certainly develop smoothly. Some leading persons, however, have not emancipated their minds sufficiently even now, they have limited their work to only paying lip service and issuing general slogans instead of effective concrete measures. Some places have not yet streamlined organs governing township and town enterprises even now; others are critically short of personnel even though organs are set up, thereby impeding progress of routine work. In large-scale development of township and town enterprises, it is the responsibility and duty of the leadership at all levels to provide quality services to the grassroots level, do away with empty talk, and tackle practical problems so as to develop township and town enterprises steadily.

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RAPID ECONOMIC GROWTH IN GUANGDONG'S HAINANDAO

OW051742 Beijing XINHUA in English 1434 GMT 5 Mar 86

[Text] Guangzhou, March 5 (XINHUA)--South China's Hainan Island experienced its fastest economic growth in 1985, despite difficulties and setbacks.

Its gross social output value increased 11 percent over the previous year to 6.33 billion yuan, according to the local statistics department today.

The figures also show an eight percent increase in income and a 12.8 percent increase in gross industrial and agricultural output value over 1984, which total 3.56 million and 3.665 billion yuan, respectively.

Per capita annual income in rural areas went up from 169 yuan in 1980 to 365 yuan in 1985. Urban workers got an increase of 119 yuan over the previous year, and the per capita annual income for urban families was 778 yuan.

Hainan's economy began to pick up speed in 1980 when it began to solicit foreign investment.

In the past five years the island has signed 230 joint venture and cooperation contracts, involving 215 million U.S. dollars in overseas investment.

In addition, it carried out economic cooperation projects with 24 provinces and autonomous regions, drawing 232 million yuan and 63 million U.S. dollars in foreign exchange.

Hainan, the second biggest island in China, cashed in on its tropical climate by expanding its rubber plantations and other tropical crop cultivation. During the five years, rubber-growing areas have increased by 73,600 hectares, equivalent to one third of the past 30-year total. Growing areas for sugarcane, tea, fruit and other cash crops also increased significantly.

In industry, local enterprises suffered losses for six years running through 1977 to 1982, but a turning point was reached in 1983; by 1985, profits reached 25 million yuan and the number of loss-making enterprises went down from 64 percent to 23 percent. The light and textile industries, which used to be nonexistent in the area only a few years ago, have started to spring up.

Five of 11 key construction projects are nearing completion, and the enlarged Haikou airfield has started a charter flight service to Hong Kong. The increased handling capacity of reconstructed harbors and the newly-built railways and highways have done much to promote Hainan's trade with foreign countries; total exports in 1985 were valued at 76.13 million U.S. dollars, three times the figure for 1980.

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CSO: 4020/245

SICHUAN VICE GOVERNOR URGES VIGOROUS ECONOMIC DEVELOPMENT

Chengdu SICHUAN RIBAO in Chinese 4 Nov 85 p 2

[Article by Gu Jinchi [7358 6855 3069]: "Sichuan Vice Governor Urges Vigorous Development of Economy This Winter and Next Spring"]

[Text] I. The Current Economic Situation

How can we assess accurately the present state of the economy? We can do it mainly by determining whether the major ratios in the national economy are coordinated, whether the economy is capable of being developed continuously at the proper speed and in a stable manner, whether a higher degree of economic and social effectiveness can be achieved and whether the people are actually being benefited. It is vitally important that we make an accurate analysis and assessment of the present economic situation in our province in this context if we are to achieve a common understanding, to continue to bring about reforms and to promote the further development of the national economy. Since the beginning of this year, the various localities and departments in our province have, in line with the policy of reform of the party Central Committee and the State Council of "not yielding ground, dealing with the initial phase of the struggle with great care and seeking to achieve victory at all cost," put into effect the spirit of the relevant State Council meetings by strengthening macroeconomic control and by continuing our efforts to invigorate the microeconomy. Generally speaking, the province has done well in bringing about reforms and in developing the economy in the following areas:

1. Launching of an Overall and Thorough Reform of the Economic System in the Cities

The decisions adopted at the 3d Plenum of the 12th CPC Central Committee in October last year marked the beginning of a new phase in the overall reform of our economic system. In line with the spirit of the "Decisions," our province, in bringing about economic reforms, put its emphasis on invigorating enterprises, especially large and medium-sized state enterprises. With that as the center of gravity, new reforms have been made in the responsibility system within enterprises, the leadership structure, the cadre structure, the labor system, and the form of distribution: the system of holding the factory director responsible has become more widely adopted; the

establishment by some enterprises of a link between the total amount of wages and profit taxes paid to the state and between the amount of wages paid to the staff workers and the economic effectiveness of the enterprises has added new meaning to the economic responsibility system within enterprises. The enterprises under the jurisdiction of the province have basically completed the task of reforming the enterprises in the outlying areas; the departments and bureaus on the provincial level have made a start in taking a hand in the administration of the trades and businesses and created the necessary conditions in the outlying areas for the invigoration of enterprises; the role played by the cities has become more evident; the scope for directive control over planning has been further reduced and market adjustments have been increased to the proper extent; the readjustment tax paid by large and medium-sized state enterprises has been reduced to the extent that can be borne by the treasury. These reforms have added to the vigor, mobility and power of enterprises. Small enterprises in particular have been greatly invigorated.

The reform of the system of commodity prices and wages, which serves as the focal point for reforms this year, has been carried out in a basically satisfactory manner. The single-price format has been replaced by the multiple-price format. Although retail prices for such subsidiary agricultural products as pork and vegetables have gone up following the lifting of price control, market prices have not shown wide fluctuations and the situation has been relatively stable. These developments have served to point the way to further reforms in the price structure.

One obvious gain achieved in the reform of the economic structure this year is that, in seeking to establish a link between the strengthening of macroeconomic control and the invigoration of the microeconomy, the various localities, departments, and enterprises have gained valuable experience and come up with effective measures for exercising initial control over the scope of credit loans, the amount of currency put into circulation, and the tendency for the continual expansion of consumer funds and capital construction. By struggling for survival under difficult conditions, producing what is good during a period of shortage and making a concerted effort to tide over difficulties, we have basically come up with the necessary funds for spring and late autumn agricultural production and for purchasing subsidiary agricultural products. So long as we continue to work in keeping with this spirit, it is certain that we shall be able to establish a link between exercising macroeconomic control and invigorating the microeconomy and to find a solution to the problems confronting us.

## 2. The Attainment of a Proper Ratio in the Development of Agriculture and Light and Heavy Industries and the Sustained, Stable and Coordinated Development of the Economy

First, the pace of the second phase of the reform of the rural areas is being speeded up, the readjustment of the industrial structure in the rural areas is being made in the proper direction and agriculture, forestry, livestock breeding, sideline production, and fishery are being developed fully. The economic pattern of multiple agricultural, industrial, commercial, and transportation operations is gradually taking shape.



Second, the ratio between the light and heavy industries is tending to become more reasonable in 1984. The production value of light industries constituted 47.7 percent, while that of heavy industries constituted 52.3 percent of the GVIO. This ratio has basically been maintained in 1985. Since August, the various localities and departments, with a view to meeting the needs of the post-autumn peak marketing season, have directed their efforts toward increasing the production of such light industry products as television sets, washing machines, and refrigerators. With the strengthening of macroeconomic control, the GVIO from January to September, which showed an increase of 20.3 percent compared to the same period last year, has been increasing at a normal rate. At the same time, economic effectiveness has also registered an increase. From January to August 1985, the rate of labor productivity of state-owned industrial enterprises having independent accounting showed an increase of 13.8 percent compared to the same period in 1984. According to budgetary estimates, there will be an increase of 8.6 percent in profit taxes paid by the industries in the localities.

### 3. Market Prosperity in the Cities and Rural Areas and Notable Increase in the Purchasing Power of the Masses

The readjustment of the ownership structure in the field of circulation has served to promote the development of the various economic components, especially those of individual commercial enterprises. The unprecedented prosperity of country fair trade in the cities and rural areas has made it a major channel for the circulation of commodities in society. The circulation of commodities between the provinces has been expanded, while the markets beyond the province have been enlarged. There is an increased amount of goods held in stock and of commodities in short supply, while the structure of commodities has become more equitable.

With the development of production, the purchasing power of the masses has shown a notable increase while the structure of consumer goods has also undergone a vast change. From January to September 1985, the retail sales of commodities in society throughout the province increased 21.8 percent, while the amount of retail sale of consumer products to the residents of the province showed an increase of 24.4 percent compared to the same period in 1984. The demand for durable goods of high quality by residents of cities and rural areas is on the rise, while the amount of savings deposits in the cities and rural areas has also increased considerably.

### 4. A Good Start Has Been Made in Promoting Economic and Technical Cooperation and Exchange with Foreign Countries

Since the beginning of the year, our province, with a view to implementing the open door policy in an earnest manner, has, by holding discussions on international technical cooperation and trade and engaging in economic and technical cooperation with four provinces and five regions, developed multichannel, multilevel and multiform economic and technical cooperation and trade within and beyond the province and with foreign countries. By making use of foreign capital, importing technologies, undertaking the signing of construction contracts with domestic and foreign concerns, exporting labor services and developing the tourist trade, the province has made a start in

implementing the open door policy and in promoting projects of cooperation and exchange. Up to the moment, the province has established friendly relations with 12 provinces, cities and states in 6 countries. According to incomplete statistics, the province has also established economic and technical cooperation and trade relations with 86 countries and regions.

As a result of the development of production and the expansion of circulation, there is a favorable balance in revenues and expenditures. From January to September, the revenues of the province have increased 24.2 percent compared to the same period last year, while revenues from industrial and commercial taxes have increased 29.5 percent. Expenditures have been lower than revenues.

The situation indicated above shows the favorable trend of economic development in the province, a development made possible by the concerted efforts of all the people in the province. What has been achieved with much effort deserves to be cherished. It should, however, be recognized that while some progress has been made, we must direct our attention and concerted efforts to certain problems and difficulties that still remain if they are to be properly resolved.

## II. Work To Be Done in the Economic Field This Winter and Next Spring

We must do a creditable job in the economic field this winter and next spring if we are to exceed the quota set by the Sixth 5-Year Plan and to achieve an initial victory in fulfilling the quota for the Seventh 5-Year Plan period. To that end, we must have a clear-cut guiding ideology in approaching our economic work in the following areas: First, we must continue to attach primary importance to the work of reform. Second, we must direct our efforts toward the enhancement of economic effectiveness, regard the benefit of the entire society as a matter of high priority and deal with the relationship between the achievement of economic effectiveness and the pace of economic development in such a way that we may develop the national economy according to plan and on the proper scale. Third, we must greatly increase our efforts in bringing about the establishment of a socialist spiritual civilization while directing our efforts toward the establishment of a material civilization.

### 1. We Must Give Priority to Reforms and Further Invigorate Enterprises

We must regard the introduction of reforms a mission of major importance not only this winter and next spring, but also during the Seventh 5-Year Plan period in the economic work of our province. We must take advantage of the present favorable opportunity to further enhance the vitality of enterprises, especially large and medium-sized state-owned enterprises, to establish and to develop the socialist commodity market, to strengthen indirect macroeconomic control and to boldly explore ways and means to discover and to resolve the various problems to enable us to bring about reforms in a proper manner. The three reforms mentioned above are interrelated and are centered around the invigoration of enterprises. We must give more power to enterprises, because that is the only way they can be invigorated.



Following the issuance of the "10 Regulations for the Granting of Expanded Powers" by the State Council last year, the provincial party committee and government issued a series of regulations at various times for the simplification of administrative procedures and the granting of more autonomous powers to the enterprises on the basis of the existing circumstances of the province. Recently, the State Council has again passed on the "Provisional Regulations Concerning Certain Problems in Enhancing the Vigor of Large and Medium-Sized State Industrial Enterprises" issued by the State Economic Commission and the State Commission for Restructuring the Economic System. These regulations must be implemented one by one. At the same time, assistance must be given the enterprises to further improve their internal administration and action must be taken to rectify the situation marked by the low technical standard and backward administration of certain enterprises in our province.

We must regard it a matter of importance to bring about a complete set of reforms on planning and price control. The various localities and departments, instead of adding at each level to the quota set by the directive plan handed down to enterprises by the state and the province, must give enterprises more leeway. In handing down directive plans for production, allocation and the transfer of commodities, provision must be made for such production needs as raw materials, energy supply, and transportation facilities. As regards nondirective plans for the production, allocation, and transfer of commodities, enterprises must be permitted to set their own prices within a certain range unless other provisions have been made by the state.

Henceforth, no department or unit is to be permitted, without the approval of the provincial government, to require the enterprises to share expenses, to raise funds, and to give their "support" so that the social responsibility of the enterprises may be reduced.

It is necessary to conduct experiments for the "alteration, transfer, and organization" of small state-run industrial enterprises. These enterprises should be administered according to the method applying to state-owned and collectively-operated enterprises, or they should be reformed into state-owned collective enterprises and operated on a lease. This pattern is applicable not only to small state commercial enterprises, but small state industrial enterprises as well. The various cities, areas and prefectures may engage in experimenting with the "alteration, transfer, and organization" of applicable small state industrial enterprises in the light of actual specific circumstances.

## 2. Control over the Scale of Investment in Fixed Assets and Enhancement of Investment Effectiveness

One pressing problem confronting our province this winter and next spring is how to exercise more effective control over the scale of investment in fixed assets. In dealing with this problem, we must be firm in our resolve to implement the measures which have been adopted.

A firm resolve is key to the exercise of effective control over the scale of capital construction in our province. The cadres at various levels must put into action the gist of what was said by leadership comrades in the party Central Committee regarding the need to exercise control over the scale of capital construction, unify their thoughts and direct their efforts toward bringing about reforms by the creation of a more relaxed economic environment.

The major reason accounting for the excessive scale of capital construction in our province is the inordinate increase in investments outside the plan. From January to September, the amount invested in capital construction in various localities throughout the province showed a decrease of 0.9 percent under the amount listed in the budget and an increase of 96.1 percent over the amount outside the budget compared to the same period last year. It must be realized that, from the financial and material point of view, it would be difficult to engage in and to sustain capital construction on such a scale and that it would have undesirable consequences on economic life as a whole. It is imperative that we exercise control over the scale of capital construction, especially that outside the plan. We must adopt a firm stand, make decisions without any waste of time, take prompt action and hold the initiative so that the improved financial and economic situation which has basically been brought about may be sustained.

In exercising control over the scale of capital construction, we must avoid empty talk and take concrete action. Since the beginning of the year, the State Council has drawn up a series of policy measures for controlling the scope of investment in fixed assets. Specific provisions have also been formulated by the province. Recently, eight proposals were made in a provincewide telephone conference. These proposals must be implemented by the various localities and departments.

In exercising control over the scope of investments, our province must implement conscientiously the following measures formulated by the state and the province: First, without the approval of the provincial government, the localities are not to be permitted to invest in new projects this winter and next year; second, a further check must be made on projects already under construction to determine which projects are to be continued, which are to be scrubbed, and which are to be suspended; third, it is strictly forbidden to use circulating-fund loans from the banks and the circulating funds of the enterprises for investing in capital construction; fourth, capital construction must be undertaken according to procedure and the responsibility system of the various projects must be strictly enforced.

### 3. Efforts Must Be Made To Improve Product Quality and To Reduce Material Waste

The major task of the province in the industrial field and in the area of transportation now and for a considerable period of time in the future is to centralize its leadership and its technical and financial power to improve the quality of its products and to reduce material waste as soon as possible so that it may embark on a new road marked by high economic and social effectiveness and rapid development.

Situated in the hinterland, our province had a late start in its industrial development. To create and enlarge its market for industrial products, it must ensure that they are "high in quality, low in price, and new in appearance." Economic departments at various levels and all enterprises must exercise greater control over the quality of their products and regard it as an important item on the agenda as the party organizations of enterprises are being consolidated. Through the consolidation of party organizations, it will be possible to instill firmly the idea of "gaining victory through the achievement of high quality" in the minds of those in leadership positions down to the level of staff workers. At the same time, we must enforce the policy measure of upgrading the quality of our products. Within the limits of its authority, our province should set different prices for certain major products according to their quality, encourage the production of well-known and high-quality products and put a limit on the production of inferior commodities. In allocating funds and extending loans for technical reforms, the economic planning and financial departments at various levels must give priority to those projects which make use of new technologies, which seek to improve the quality of their products, and which reduce energy consumption and material wastage. The various industrial enterprises must organize and perfect quality-inspection units, upgrade the standard of inspection, and strengthen supervision over quality. Henceforth, enterprises selling products of inferior quality are to be dealt with according to the circumstances. All trades and businesses must set and check accurately the amount of energy consumption for the production of various commodities. Those enterprises having achieved notable results in conserving the use of energy and reducing waste are to be given awards, while those having a poor record are required to remedy the situation within a fixed period of time. The bonuses paid the enterprises according to the provisional measures formulated by the state for conserving such fuels as coal, coke, and electricity are to be considered taxable. The major raw materials conserved by the enterprises are to be retained for their own use and allocation quotas set by the plan are not to be reduced.

#### 4. Exercise of Macroeconomic Control over Banking Operations and Invigoration of the Economy in the Cities and Rural Areas

In the next few months, when the production, purchasing, and marketing season is at its peak, there will be a great demand for funds and larger amounts of currency in circulation. Banking units must exercise strict control over the scale of credit loans so as not to exceed the quota set for the entire year. During the fourth quarter, banking departments at various levels must take advantage of the opportunity presented by increased wages paid to certain staff workers and larger incomes earned by peasants to increase the amount of savings deposits in cities and rural areas and to continue to settle outstanding accounts and overdue loans. We must do a creditable job in the accommodation of funds, strengthen vertical control over funds needed in different places at different times, and make a concerted effort to narrow the gap between the supply and demand of funds. At the same time, we must strengthen administration of the money market and exercise strict control over the raising of funds in society.

## 5. Formulation of Meticulous Plans for the Market and the Exercise of Strict Control Over Commodity Prices

The consolidation and development of the prosperous situation in the market and the achievement of basic stability in commodity prices are major economic and political problems to which we must direct our attention so that proper plans for the market, especially during this winter and next spring, may be made, that commodity prices may be put under control, and that good order may be maintained in the socialist market.

Regarding commodity prices, what is required is the resolute implementation of the Central Committee policy of "integrating deregulation and readjustment and advancing one small step at a time." This winter and next spring, our province will not, generally speaking, propose new measures for increasing prices. At this time, we should place emphasis on controlling the prices of such major subsidiary foodstuffs as pork, eggs, vegetables, and cooking oil. We must ensure the adequate production and supply of vegetables. Recently, there has been a considerable increase in the prices of vegetables in large and medium-sized cities. While part of the increase is caused by natural disasters, part of it is due to faulty operations. At present, little enthusiasm is shown by vegetable farmers in the city suburbs in growing vegetables and by vegetable stores in their operations. This has made it difficult for vegetable markets in the large and medium-sized cities to adjust the supply of vegetables and prevent prices from going up. The mayors of the various cities and the directors of the various commercial bureaus must show personal concern in the vegetable market, further rectify the conception and workstyle in vegetable market operations and establish and perfect the operational responsibility system. The acreage for the production of vegetables in the suburbs must be maintained and vegetable production properly developed in the outer suburbs. Retail vegetable stores owned by the state must not be permitted to engage in other businesses at will. Specific retail vegetable stores, with the approval of the authorities, may apply for exemption from the payment of retail taxes. At the same time, the reform of the vegetable operations structure must be speeded up and the enthusiasm of vegetable farmers and marketing agents further activated.

In exercising price control, the actual prices of commodities must be clearly labelled and all weighing machines must be checked at regular periods. Heavy fines are to be imposed for violations of the price policy and those guilty of serious offenses are to be held criminally accountable. Price-control units and the responsible departments at various levels must fearlessly exercise their responsibility for supervision and inspection. At the same time, large numbers of consumers should be organized to engage in the work of supervision. The industrial, commercial, taxation, commodity prices, banking, public security, health, and other concerned departments must participate in the work of supervision in conjunction with the masses and set up vertical and horizontal supervision and inspection networks throughout the province to exercise overall control over commodity prices.

## 6. Maintenance of Open Door Policy and Creation of New Conditions for Increasing the Amount of Exports and Foreign Exchange Earnings



The province has made considerable progress in recent years in engaging in economic operations with foreign countries. Henceforth, efforts must be made to achieve a breakthrough in the export of commodities and labor services and the development of the tourist trade.

Further progress must be made in the export of commodities. One pressing need is the readjustment of the structure of export products. Aside from the traditional export items, it is necessary to promote the export of new, well-known and high-quality products. Further studies must also be made regarding the granting of special privileges to enterprises and units earning foreign exchange and the establishment of bases and special factories for the production of export commodities.

The export of labor and the development of tourism are promising industries of the province. As regards the export of labor, it is, first, necessary that we provide adequate training for construction workers and improve the technical standard and the quality of our work to increase our ability to compete. Second, we must continue to develop the key role played by the staff workers of the state enterprises in our province and the advantage enjoyed by our construction workers in the rural areas so that we may engage in joint operations and enlarge our foreign market. Third, we must exercise greater control over the various trades and businesses and take a united stand in our external dealings. During the off-season for tourism in our province this winter and next spring, we must engage assiduously in preparatory work to improve the scenic spots in Emai and the Chang Jiang Gorges and develop Huanglong-Jiuzhaigou and other scenic spots with favorable communication facilities and good prospects. We must lay a sound foundation for planning and for making available the supply of labor, materials, and funds and carry out the projects step by step and one at a time. We must also provide training to the contingents of staff workers in the tourist industry.

#### 7. General Inspection of Taxation, Finances, Credit Loans, and Commodity Prices and Enforcement of Strict Financial, Economic, and Commodity Price Discipline

Several plans have been put forward by the provincial government to launch a general inspection of tax revenues, finances, and commodity prices in conformance with the policy of the State Council. A start has already been made in the checking of credit loans. The following items of work must now be attended to: First, we must take a further step in establishing leadership in the organizations; second, we must, within a fixed period of time, come to grips with the focal points, concentrate on making a thorough investigation into and dealing properly with the problems that are of a serious nature, that have grave consequences and those over which the masses have expressed serious concern so that we may strengthen the confidence and determination of the cadres and the masses in the work being done; third, we must begin to put things in good order even while investigation is underway. While engaged in investigation, we must avoid judging a case without reference to its background and engaging in investigation without learning a lesson or trying to put things in good order. We must establish a link between investigation, party education, and education in the need to observe discipline and to comply with the law.



#### 8. Transmitting the Annual Plan and Formulating the Seventh 5-Year Plan

The drawing up of the Seventh 5-Year Plan and the formulation of the plan for next year are important items of work which must be attended to. As the saying goes, "adequate preparation spells success, while the lack of it spells failure." At present, the work of drawing up the Seventh 5-Year Plan is in progress in the province, the cities, the regions, and the prefectures. The various localities must beef up their leadership, organize the necessary forces, engage in research, make an accurate forecast and study ways and means to deal with the situation so that the plan may tie in with the strategic layout made by the state and the special features of Sichuan and the various cities, localities, and prefectures of the province. In that regard, we must bear in mind the guiding thought on the drawing up of the Seventh 5-Year Plan provided by the CPC National Congress in dealing properly with the relationship between speed and effectiveness, in increasing production while consideration is being given to the need to improve the quality of the products, on the one hand, and economic effectiveness, on the other, in dealing properly with the relationship between what is necessary and what is possible, in engaging in capital construction and technical reform within the limits of our capability, and in dealing properly with the relationship between the readjustment of the industrial structure in the rural areas and the stable increase in the production of grain in order to promote vigorously the commodity economy in rural areas.

The year 1986 marks the first year of the Seventh 5-Year Plan. From now on, efforts must be made to engage in various kinds of preparatory work. At the moment, major attention must be given to the drawing up of various plans for next year. On principle, the plan for 1986 and the specific plans of the various departments should be handed down to the various localities, cities, and prefectures before November so that they may have sufficient time to make the necessary preparations for their implementation without any waste of time. Efforts must also be made to keep the facilities in good repair and to ensure the supply of raw materials, fuel, and subsidiary materials.

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ECONOMIC MANAGEMENT

SHAANXI GOVERNOR DISCUSSES SUPPLY OF GOODS

Xi'an SHAANXI RIBAO in Chinese 6 Dec 85 p 1

[Article by reporter Zhou Fu [0719 4395]: "State Commerce Must Control the Supply of Goods and Give Full Play to Its Role the Main Channel, Governor Li Qingwei Notes at Symposium on Financial and Trade Work"]

[Text] State commerce must have the supply of goods under control, actively participate in market regulation, and give full play to its role as the main channel. This was pointed out on 5 December by Governor Li Qingwei [2621 1987 0251] in his speech at the provincial symposium on financial and trade work.

Governor Li Qingwei said that the urban and rural market situation throughout Shaanxi Province has been extremely good since the beginning of this year. The market is flourishing, enjoying brisk buying and selling; the price reform has had a smooth start; the price of daily necessities is relatively stable; credit funds are under control; the financial situation is obviously improved, and there has been considerable improvement in living standards. However, with the steady increase in income in urban and rural areas and changes in market development, contradictions between supply and demand are becoming more prominent; thus the tasks facing the financial and trade front are arduous.

1. State commerce should actively participate in market regulation, expand the scope of operations, put the supply of goods under control, guide the market, keep down prices and give full play to its role as the main channel in circulation. State commerce must be in control of the vital means of production and the supply of the durable industrial products which are critically short. State wholesale commercial enterprises should prepare well for seasonal reserves, play the role of reservoir and overcome the attitude of putting profits above everything else. The key to improving the market at present lies in making better arrangement for the supply of vital nonstaple food items, such as meat, eggs, and vegetables. The autumn vegetable situation is excellent across Shaanxi Province this year. The state-owned vegetable companies should each endeavor to make up the other's deficiency from its own surplus, regulate variety, and stabilize vegetable prices in an efficient and organized way. The business volume of the vegetable companies in large and medium cities such as Xi'an and industrial

and mining areas must constitute more than 50 percent of the gross sales volume in society. We should strengthen the procurement of farm produce and sideline products. The food department in particular must procure and allocate hogs, beef cattle, meat sheep, and eggs to the maximum this year so as to enhance the supply in support of the marketing areas.

2. We should concentrate on grain procurement and sales and make proper arrangements to ensure the welfare of people in disaster-stricken and grain-deficient areas.

3. The rising price index must be strictly controlled. The key to stabilizing market prices lies in the stabilization of nonstaple food prices. For this reason, various localities must adopt measures prior to the Spring Festival to put the price of nonstaple foods, such as meat, eggs, and vegetables, under effective control. Collectively owned shops and individual small retailers must abide by the state principles guiding and setting prices for major nonstaple food items.

At the symposium, Governor Li Qingwei also urged Shaanxi's banks at all levels to enhance macroeconomic regulation and control and at the same time tighten control of credit funds with flexibility; financial departments should continually work on increasing output and income and strictly curb various expenditures so as to achieve a balance in revenues and expenditures; they should curtail administrative expenses and take strict measures against yearend spending sprees. Various financial and trade departments should make concerted efforts to achieve still greater success in financial and trade work throughout Shaanxi Province.

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## ECONOMIC MANAGEMENT

### VIABLE SYSTEM OF MANAGING CONSUMER GOODS INDUSTRY DISCUSSED

Beijing RENMIN RIBAO in Chinese 31 Jan 86 p 5

[Article by Liu Fengchang [0491 1496 2490]: "Establish a Viable Management System for the Consumer Goods Industry"]

[Text] Why is it that the consumer goods industry has lagged seriously in meeting the needs for higher living standards for so long? The crux of the matter lies in the fact that the management system of the consumer goods industry in the past was incompatible with the characteristics of the consumer goods industry and even ran counter to it, thereby impeding its development.

The main characteristics of the consumer goods industry are its multiplicity and changeability involving numerous products and endless changes. Compared with the means of production, there are several thousandfold more products. For example, a kind of rolled steel as the means of production, once processed by the consumer goods industry, can be turned into several hundred and even thousand kinds of consumer goods. This multiplicity is determined by the multiplicity in the people's livelihood and since the daily needs of the people are ever changing, they in turn determine the multiple changeability of consumer goods. The characteristics of multiplicity and ever changeability in the consumer goods industry demand that its management system be full of life and vitality. However, the management system of China's consumer goods industry since the founding of new China has been overcentralized and rigidly controlled on the whole, making it incompatible with all its characteristics as shown in the main as follows:

First, the highly centralized planned management is incompatible with the multiplicity characteristic of the products. Our planning is mandatory. The supply of raw materials for all products included in the plan and their sales are guaranteed as if they were in safekeeping in a safe deposit box. As a result, various departments and areas fight to get their products included in related plans. This has resulted in bickering from months to years. Consequently, more products are included in the plans year after year and the plan records are getting thicker and thicker in volume each year; but the plans are increasingly out of touch with reality. However, regardless of bickering, it is objectively impossible to include tens of thousands of industrial consumer goods in the plans, which will still be far from complete even though only several hundred are listed; in the end most products are still being left out. Furthermore, products that are not included in the

plans amount to being listed in separate records since neither raw materials nor sales channels are available to them. As a result, many consumer goods are often found out of stock in the market, seriously affecting the people's daily life. Whenever there is an urgent need for the people's daily necessities, interim emergency measures have to be taken with the leadership at all levels personally taking part in increasing production. Instances of a vice premier in charge of passing out cards, a municipal CPC committee secretary watching the chimney, and a provincial CPC committee secretary taking charge of an iron pot have occurred in the past.

Second, the system of state monopoly for purchase and marketing is incompatible with the ever changing characteristics of products. The purchase and marketing of our industrial consumer goods in the past were monopolized by commercial departments. The factories, operated behind closed doors with a wall separating them from the market and consumers, can neither see market changes nor receive information feedback. Moreover, as the buyer's market that lingers on for a long time is "trouble-free" like "the daughter of an emperor having no trouble being married off" because if things are in short supply, coupons can be issued to limit the amount of purchase. In this way the market and the consumers cannot react readily to the factories, which under pressure will lose the motivation to improve and update their products. As a result, they perpetuate the pattern and shape of products and the consistent system that existed for several decades that cannot in any way cope with the ever changing needs in the people's livelihood. Facts have proved that this type of management system of the consumer goods industry shackles the development of the consumer goods industry, further development of which will be futile without reform.

The reform of the management system of China's consumer goods industry has had a good start since the 3d Plenum of the 11th CPC Central Committee.

First, the practice of monopolizing purchasing and marketing by state commerce has been gradually changed in the circulation sphere. Beginning from 1979, light industry administrative departments and enterprises at all levels have embarked on selling things by themselves. They set up additional sales departments one after the other, sponsored meetings to promote sales and accept orders for goods, and carried out extensive business activities, such as delivering goods to the door, extending services to households, and putting up advertisements and other publicity. As the network of selling goods by industry itself is gradually taking shape, the proportion of things sold by industry itself has increased annually. Take the light industry departments, for example, by 1985, the proportion of consumer goods sold by industry itself amounted to more than 60 percent. This is a significant breakthrough in the reform of the management system of the consumer goods industry.

1. It has dismantled the high wall separating industrial enterprises from the market and the consumers. The enterprises changing from closed to open operations can now witness changes in the market with their own eyes and hear the voice of consumers, responding quickly to information feedback. Thus, enterprises will be able to expeditiously readjust the service orientation



and change the product mix based on market changes and consumer demands so as to cope with the ever growing and changing needs in the market and the people's livelihood.

2. It has turned an enterprise from a production-only entity to that involving both production and management so that it grasps production as well as management. By combining production with circulation, it has also changed the abnormal situation in the past with the industry announcing good news (in pursuit of quantity), the commerce reporting bad news (having large stocks of goods), and the financial departments announcing deficits.

Second, significant reform has been carried out in the planned management system. At present, except for a few products among industrial consumer goods, such as chemical fiber, polymerized chemical fiber, newsprint, cigarettes, and salt that are still under the state mandatory or semimandatory plans, all others have been shifted toward guidance planning and market regulation, thereby laying a groundwork for setting up step by step a management system of the consumer goods industry that is full of life and vitality.

In short, the reform of the management system of China's consumer goods industry had a good start during the Sixth 5-Year Plan period as a prosperous situation unprecedented since the founding of new China appeared in the market for light industry products. However, judging from the reform on the whole it is only a beginning, since the reform is still not well coordinated in many ways and it has not been carried out very effectively in the most critical link.

The critical link is the reform of the price system. In spite of the fact that we have shifted most of the products of the consumer goods industry from mandatory planning to guidance planning and market regulation, we still have not been able to apply the price lever and carry out market regulation very effectively because the reform of the price system is not progressing at the same pace. The reform of the price system becomes a critical link. To set up a management system of the consumer goods industry that is full of life and vitality, the pricing system for products of the consumer goods industry must be reformed in a planned and systematic way. We should let the price lever play an expeditious role in regulating the supply and demand of unsalable and critically short products in the market. We should differentiate the quality price between brand name and new products and other products in general and differentiate the price between hot-selling and unsalable products and price differences in slack and brisk seasons. Only by so doing can we guide production and regulate the market to achieve a supply-demand equilibrium, bring up the quality of products, increase variety, develop new products, and advance the consumer goods industry more effectively.

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ECONOMIC MANAGEMENT

STEPS TO RATIONALIZE MARKET PRICE CONTROL DISCUSSED

Chengdu SICHUAN RIBAO in Chinese 30 Dec 85 p 3

[Article by Sichuan Price Bureau: "Uphold Reform, Bring Market Price Control to a Rational Level"]

[Text] A rational price system is an important prerequisite for the development of a national economy. The reform of the price system holds the key to the success or failure of the reform of the entire system. In line with the unified planning of the CPC Central Committee and the State Council, Sichuan Province has successfully adopted certain reform measures based on the principles of "marching forward in coordinated and steady steps" and "proceeding with caution to ensure victory for the first battle" and readjusted the rural grain price, decontrolled hog prices, adequately raised the short-distance transportation price by railways, and readjusted the price of timber and the price parities between the types and variety of coal, and so forth. After these items of reform were put into effect, the purchasing and marketing price of pork, the price of coal and the general price level all rose to a certain extent, which was normal. Such a rise is conducive to mobilizing the enthusiasm for hog-raising by peasants and coal mining by miners. In 1985, the number of hogs slaughtered in Sichuan registered an increase of more than 5 million head over the preceding year, playing a vital role in ensuring market supply within the province and also supporting exports as well as supplies to other large cities, such as Beijing, Tianjin, and Shanghai. It is estimated that Sichuan will produce an additional 1 million-plus tons of coal to ease supply and demand to some extent. All this has a direct bearing on the rational adjustment of price.

However, due to the runaway macroeconomic control at the end of 1984, the playing down of the role of state commerce as the main channel, the lack of correct business attitude in some units, the failure to provide the essential followup measures after certain reform projects were launched, failure by some enterprises to heed the rise in prices for raw materials consumed internally, and indiscriminate price hikes by some units and individuals taking advantage of the reform, and other reasons, the general price level in Sichuan has gone up considerably. This is particularly true of the prices of nonstable foods, such as vegetables and eggs, closely related to the people's livelihood which rose excessively, to the displeasure of the masses. These matters if not handled properly will equally affect the progress of price reform and the restructuring of the entire economic system in Sichuan Province.

How to basically stabilize price in the course of price reform is an issue of great importance to the party committees and governments at all levels. Since the beginning of this year, in keeping with the plans and demands of the state, the provincial CPC committee and the provincial government have adopted a series of vital measures in the area of macroeconomic control to basically curb the rise of commodity prices. Recently they also called special meetings to study the matter and issued circulars one after another laying down specific targets and measures for controlling the price hikes. Judging from the progress of implementation in various localities, the results have been outstanding and the excessive price hikes in Sichuan have been basically controlled. However, vegetable prices are still comparatively high in some cities, not having dropped down to a reasonable level. Affected by price hikes in raw materials, the pressure for price hikes in some commodities remains tremendous. The readjustment of wages and the increase of money in circulation for purchasing farm produce and sideline products will have an impact on market prices in Sichuan this winter and next spring. All this requires us to see the situation clearly, uphold the reform, adopt measures and work effectively to bring market prices in Sichuan under control at a reasonable level this winter and next spring.

1. We should stabilize the price of major nonstaple foods, such as pork, vegetables, vegetable oil, and eggs, in a down-to-earth way. In regard to vegetables, first, we should ensure the sown acreage, the vegetable bases designated by the state must grow vegetables. Second, as a matter of policy, the vegetables delivered in large quantities by the peasants growing them should be linked up in return with grain, edible oil, coal, and chemical fertilizer to be supplied to them at a fixed-price parity; the vegetables should also be supplemented with industrial and sideline enterprises. Contracts should be signed to ensure that peasants in the vegetable bases deliver large quantities of vegetables to the state at fixed ratios. The state-owned vegetable companies should give full play to their role as the main channel through active operations. Maximum price limits should be set for the major varieties of vegetables being supplied in large quantities. With regard to pork, the state-owned food companies should give full play to their role as the main channel by maintaining an adequate supply and continually implementing the principle of "ensuring supplying the local market first before allocating to other places" so as to ensure that the amount of market supply will not drop below the level for the same period in the preceding year. Sales of state-owned food departments cannot be contracted out to individuals. Besides guiding selling price and setting maximum price limits, the price and industrial and commercial administrative departments should strengthen market control and curb the unhealthy trends of passing off inferior grades as superior ones and raising prices in disguise. Besides ensuring the supply of a fixed amount of vegetable oil at par, a fixed quantity of medium-priced oil should also be supplied to large and medium cities and county towns. The method of supplying eggs at a set price should be adopted according to actual conditions in various localities. To stabilize the price of major nonstaple food items, such as pork, vegetables, vegetable oil, and eggs in a down-to-earth way, we must energetically develop commodity production. We should reduce administrative orders and apply macroeconomic levers, such as by applying protective prices for farm produce and sideline

products so as to fully mobilize the peasants' enthusiasm for developing commodity production.

2. We should carry out price inspection effectively a step further and strengthen supervision and control over prices. Inspection at present should be focused on the price of major nonstaple food items, major industrial consumer goods, important means of production closely related to the people and on fees charged for items other than commodities. We should continue to popularize the use of unified price tags for goods, insist on clearly marking prices, and oppose any act of hiking prices in disguise. We should strengthen the regular check of weights and measures and issue certificates of inspection to those meeting the required standards; those failing to meet specifications will not be issued a certificate of inspection and cannot be used in the market. We should effectively organize voluntary supervision by the masses and earnestly set up and give play to the voluntary inspection organizations of workers and staff members and the role of their personnel. In handling price violation cases, heavy penalties should be given to units and individuals who resorted to treacherous means, whose cases are more serious, affecting an extensive area, and who refused to mend their ways despite repeated admonitions.

3. We should concentrate on making full use of the potential of light industry enterprises and tighten guidance and control of the prices of the means of production not included in the plan. The general principle applied should be modeled on the one pointed out in the proposal for the Seventh 5-Year Plan: "The increase in production cost due to the rising prices of major means of production should be offset as much as possible by raising labor productivity, reducing consumption of energy and materials, and making full use of enterprises' potential. We must strictly control the extent of price increases." The specific course of action is that while putting the stress on making full use of the enterprises' potential, we should take care of the matter according to different targets in keeping with the actual conditions relating to the production of light industry products in Sichuan. Price hikes are not permitted for products which could still make a profit even after the prices of raw materials were raised. As to some commodities that are critically short in the market, if the enterprises producing them indeed are having great trouble in making full use of their potential, taxes may be adequately exempted with the approval of the tax departments, or this matter can be solved with the commercial departments yielding profits to the industry. This matter can also be solved in other ways, such as by giving adequate subsidies from financial revenues or by adequately increasing the supply of raw materials within the plan. With respect to the price for heavy industry products, at present we should in the main strengthen control over prices of the vital means of production, such as rolled steel, pig iron, and cement, and at the same time give priority to control and guidance over market prices not included in the plan.

4. We should strengthen the management of urban and rural peasant trade fairs and small retailers. Inspection should be carried out expeditiously on such acts as selling goods purchased at forced-down price at a higher price at a higher price, cheating, and riding roughshod in the market, selling

decayed and degenerated goods, adulterating goods, and cheating on weights, we should sternly deal with and curb the unhealthy tendencies of indiscriminate price hikes so as to protect the interests of producers and consumers.

New Year and spring festival are approaching, so it is increasingly important for us to tighten control over prices in the urban and rural markets. Responsible departments in various localities should pay special attention and adopt strong measures to effectively control prices in accordance with the pertinent specific regulations so as to ensure basic stability in prices.

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ECONOMIC MANAGEMENT

BRIEFS

GANSU TOWNSHIP ENTERPRISE DEVELOPMENT--The Gansu Provincial CPC Committee and the provincial government have achieved notable results in developing township and town enterprises by upholding the principles of establishing lateral ties at home and introducing investment from abroad and opening to the outside world and invigorating the domestic economy. By the end of November 1985, there were 90,000 township and town enterprises, an increase of 70,000 as compared with the end of 1984. The output value of township and town enterprises throughout the province had reached 1.5 billion yuan, more than double that in 1984 was expected by the end of the year. Lintao County has become the first county in Gansu whose township and town enterprises exceeded 100 million yuan. Gansu's township and town enterprises have a rather weak foundation and are in need of funds, personnel, and technology. But the province has a number of large and medium backbone enterprises. In keeping with this characteristic, Gansu Province while strengthening urban and rural lateral ties above all has also forged coordination with other provinces and cities. By the end of 1984, many urban and rural economic integrated entities in various forms around backbone enterprises producing hot-selling products appeared throughout the province, they were capable of increasing the output value by another 530 million yuan. They had also signed separately agreements for strengthening economic and technological cooperation with Jiangsu and Zhejiang and agreed on 115 coordination projects. Since it began to sign agreements on projects of coordination in mining, textile, leather, and hide processing and food processing in 1984, the Hexi area has up to now completed and put into operation 89 projects. [Text] [Beijing NONGMIN RIBAO in Chinese 9 Jan 86 p 1] 12662/9312

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FINANCE AND BANKING

ESTABLISHMENT OF CHINA'S MONEY SUPPLY INDEX DISCUSSED

Taiyuan JINGJI WENTI [PROBLEMS IN ECONOMICS] in Chinese No 9, 25 Sep 85  
pp 10-12

[Article by Li Hong [2621 1738] of the Financial Research Institute of the China People's Bank (Responsible Editor: Zhang Jianwen [1728 1696 2429]):  
"Ideas On the Establishment of China's Money Supply Concept"]

[Text] Money supply is an important concept in Western monetary and banking studies. From the perspective of macroeconomic monetary control, it is different from China's commonly used concept of money demand (necessity) in the following two ways: a) In Western countries, the concept of differentiated money-supply levels is an intermediate target used by central banks to carry out macroeconomic control and is of actual operating significance, while the concept of money demand is used more as a tool in making theoretical analyses of the relations between commodities and money. In China, the monetary indices used by the People's Bank to carry out macroeconomic control are total cash and total credit, and their practical role is very close to that of the concept of money supply. b) In all countries, the concept of money supply refers to all bank and other financial institution liability (the central bank's basic currency is also its liability). When studying the issue of money corresponding to economic demand, we sometimes refer to bank fund sources (cash and savings), and sometimes to bank fund use (total loans). The connotation of money corresponding to economic demand is not as clear as the concept of money supply, and refers only to the means of circulation and payment which have purchasing power.

As to the use of which conceptual (index) system is finally better, there are three choice criteria: 1) Which conceptual (index) system is more closely linked to economic activity (economic indices)? 2) Which conceptual (index) system is readily receptive to effective central bank control? 3) Statistical which system is more accurate and timely? The second of these three choice criteria is most important. Since the central bank is the institution which implements macroeconomic monetary control, if its control indices were ineffective, it would mean that overall monetary policy existed in name only. The detailing of money-supply content (breaking it down into  $M_1$ ,  $M_2$ , etc.) in Western countries is related to their postwar strengthening of the central bank macroeconomic monetary-control function. The principal basis for the  $M_1$ ,  $M_2$ , etc. division is the circulation ability of various monetary levels or

the amounts of their purchasing power. Obviously, monetary indices which are more highly related to economic index changes and have a stronger circulation ability are more important to central banks.

China has long used the two indices of cash and credit to carry out credit management. This choice was linked directly to the realization of our People's Bank macroeconomic control needs. It can be said that the use of this target management system is possible only in a socialist planned economy. This is due to the following major reasons: a) In the past, we strictly differentiated transfer payments from cash and savings accounts. Savings account transfer was a medium of circulating the means of production. Their circulation rate, velocity, and orientation were restricted by national economic planning, which was generally high-speed planned control. Cash was principally a medium of circulating the means of subsistence. The state could not practice mandatory administration of their circulation orientation, rate, and velocity. But means of subsistence supply and demand balance directly affected the stability of people's lives, and thus, quantitative control of cash supply was indeed of very great significance. But in the West, all monetary payments are unrestricted. They have only the difference between cash modification ability and payment cost, and have no differences in circulation field. The relative proportions of their total amount of money are constantly changing, which has a great effect on their total supply and demand balance. Thus, Western countries cannot choose to control only the one monetary level of cash and ignore other levels. In addition, they must also always pay attention to studying the mutual transformation of all monetary levels and changes in their relative proportions.

b) In Western countries, the commercial bank asset and liability structure is quite complex. As to their asset business, in addition to providing loans, all banks can also do such things as buy various negotiable securities on money-capital markets and lend short-term cash to other banks. As to their liabilities, they can accept deposits of all time limits and characters. Thus, central bank control of total credit certainly does not mean control of all banking system fund use. Moreover, control only of total credit makes it impossible to understand which monetary level these funds will be transformed into and may have an effect on total social supply and demand. For certain periods of time, some developed countries used the method of controlling credit. But, on one hand, they certainly did not stop counting and controlling their money supply and, on the other, their credit control absolutely did not have the same significance as did credit control in China. Under China's economic and financial management system, since the banking system (disregarding construction banks and intermediate banks) asset and liability structure is very simple, transfer relations between loans and savings are also quite clear, and the total money supply can be basically controlled through controlling total credit.

c) A final major reason is that China's bank loan management system has made it possible to control total cash and total credit. Until 1983, the basis of all of China's credit management system was target management, and there was only one account to balance for the People's Bank throughout China, i.e., the national savings and loan margin equalled the amount of cash in national circulation. From a technical perspective, as long as the central bank was able

to control the circulation of cash, it could control total savings and loans. Conversely, if its credit margin was not overfulfilled, the amount of cash in circulation could not increase. Thus, through formulating cash and credit plans, the People's Bank was able to effectively control the national money supply (as long as it practiced strict target management, the formulation of these two major plans was technically feasible). But this simple balance relationship ( $\Delta \text{cash} + \Delta \text{savings} = \Delta \text{loans}$ ) certainly did not exist in the central bank financial system. Under the conditions of having some savings plan funds, a savings plan fund increased central bank liabilities and correspondingly increased commercial bank assets. Based on delivering enough savings plan funds, commercial banks could determine the actual scope of savings and loans on their own. The central bank could only calculate the derived maximum target which commercial bank currency created for central bank basic currency, and could not directly control the actual scope of their savings and loans. The central bank had to control the money supply according to the currency co-efficient in order to flexibly and effectively realize its monetary policy.

It can be seen from the above analysis that, under China's past economic and financial management system, the use of cash and credit plans to carry out macroeconomic monetary control had an objective and scientific basis. If we were now asked to abandon this target system and make a comprehensive change to a money-supply index system, it would obviously violate our national conditions. But we must also consider that, along with reform of the economic and financial system, some objective conditions are changing or have changed, and the People's Bank is no longer able to effectively control the scope of cash and credit completely according to past theories. The issues exposed in 1984 have clearly illustrated this point.

In 1984, the growth of China's cash issue and credit greatly exceeded all expectations. Undeniably, there were many nonfinancial elements in the appearance of this situation, but a major reason was that the macroeconomic control measures of the People's Bank were ineffective. The following major issues are reflected in the monetary control index.

1. Due to the transformation of a large unified banking system into a central banking system, China's banking system has also acquired a derived savings ability. In 1984, we adopted the fund-management method of combining target management and savings plan funds. Moreover, the principles which we began to practice prior to 1979 of margin control and more savings and loans have also been continued. In the past, the People's Bank only used cash to balance its asset-liability margin, but it has now added savings plan funds. Together, they form the People's Bank basic currency. Disregarding the People's Bank's public finance advance overdrafts and gold and silver funds, its major fund use is reloaning to specialized banks. Obviously, these reloan totals are not limited by the amount of new cash issue, but are balanced jointly by cash and savings plan funds. Without the derived savings mechanism, these reloans and new specialized bank savings produced by them should be quantitatively identical, and these new savings and new specialized bank loans produced by them should also be quantitatively identical. But in fact, since specialized banks have more savings and loan jurisdiction, except for cash which has flowed out, part



of their loans will always recirculate back into bank savings accounts, and specialized banks can reloan them in fixed proportions, thus reforming new savings (derived savings). Thus, even if national cash circulation plans are not overfulfilled, total national credit may still overfulfill planned targets. Before we scientifically calculated the quantitative relationship between national cash reserves and total savings for central bank basic currency and fund use, we had no idea of our theoretical total savings and loan value and even less of its actual derived conditions. Calculations show that in China's 1984 banking system, the average savings plan rate was approximately 0.26, the savings cash payment rate was approximately 0.27, the theoretical derived savings multiple was approximately 2 to 4, and use of 1 yuan of the People's Bank fund produced approximately 1.2 yuan of specialized bank savings. This means that the actual scope of national savings and loans has deviated from the course of direct People's Bank control.

2. Not only has the scope of savings and loans deviated from the course of direct People's Bank control, but cash control is also not as serviceable as it was in the past. In fact, effective cash control was wholly a result of our past artificial differentiation of the means of production and means of subsistence business fields. From the perspective of the nature of business per se, means of payment can be either cash or savings checks, the determining factors being payment cost and convenience. If control of various means of business payment were renounced, cash and savings payment proportions would undoubtedly change according to the above factors. This would be an internal money-supply structure change and would not affect total money supply. Generally, account transfer is a more convenient and safer form of account settlement than cash payment. Thus, the more developed the commodity economy and the more advanced the financial business, the higher the proportion of checking business. But in China, due to the administrative management of savings account settlement, cash payment ability has always been much stronger than that of savings. Thus, along with the 1979 economic system reforms, the scope of cash business was expanded, with not only means of subsistence business using cash payment, but with even some means of production business also using cash payment. The Central Committee could not, nor was it necessary for it to intervene administratively in this money-supply structure change which was caused by economic factors. If we obstinately demand a reduction in the amount of cash, but do not reduce the total money supply, the amount of savings currency will increase. This currency will also have a payment ability and, moreover, will put pressure on commodity supply and demand.

3. By only observing cash and credit targets, we cannot have a comprehensive understanding of money-supply conditions. Cash is currency which has circulated into the banking system, and its effect on commodity supply and demand can be seen and felt. Thus, we can quite clearly calculate the proportion of irrational cash circulation. But cash and all levels of savings currency come from bank loan transformation. Cash can be liquidated, and all levels of savings can also be liquidated. The most important of this is liquidation produced by yearend shock loans. These loans may be changed into savings or remittance transit funds, can only exist for a period of several days at the end or the beginning of year, and run their course in bank accounts. But their effect on the money supply may influence the whole next year's monetary policy. In



Western countries, this pure bank-account currency does not exist. Thus, the amount of increased currency issue does not correspond to GNP growth, but is expressed as price-rise pressure. But in China, in addition to these two outlets, part of increased currency issue can also only affect bank statistics, but cannot result in actual pressure on social purchasing power. Only comprehensive money-supply calculation will enable us to understand the true effect of bank loan expansion on the money supply.

Due to objective economic changes, controlling only the two targets of total cash and total credit may result in many flaws in China's central bank macroeconomic control, and may also cause certain misunderstandings of our true currency circulation conditions. Analyzing and studying the money supply index will help to achieve the following: 1) it will help us to clarify the derived ability and the derivation process of the People's Bank basic currency; 2) it will help us to clarify transformation relations and a rational money-supply structure for all monetary levels, and also help us to promote comprehensive financial system reform based on strengthening central bank macroeconomic control; 3) it will help the People's Bank and all specialized banks, respectively, to formulate scientific cash-issue and credit plans.

Along with thorough development of China's financial system reform and improvement of the People's Bank macroeconomic regulation status, we will have to henceforth establish a money-supply control system. At present, our principal tasks are: 1) to establish China's money-supply concept, i.e., to differentiate money-supply levels based on all cash and specialized bank liability circulation capacity; 2) to begin to analyze yearly the economic significance of all monetary levels; 3) to find connecting links between money-supply plans and cash and credit balance plans. Only based on this series of tasks can a macroeconomic control system be established for China's money supply.

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FINANCE AND BANKING

TAX ON IDLE FIXED ASSETS SUGGESTED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 10, 5 Oct 85 pp 36-37

[Article by Zhou Jianguo [6650 1696 0948]: "Preliminary Ideas on the Collection of an Idle Tax on Fixed Assets"]

[Text] According to research, approximately 10 percent of the fixed assets of industrial enterprises in China is idle and unutilized. The utilization rate for equipment in some enterprises is only 50 to 60 percent, while the output value and profit rates on fixed assets--two overall economic indicators--have not yet reached their highest historical level. However, at the same time that there is a great deal of idleness in the fixed assets of enterprises, some enterprises still blindly seek to increase production speeds, compete to invest, demand equipment, blindly import and make overlapping purchases of fixed assets. In addition, because there are no proofs of feasibility, fixed assets purchased or constructed are not suitable and cannot be used in production, so that the labor was wasted. The fixed assets can neither take part in the creation of value, nor can they serve the realization of commodity value, leading to a great waste of productive forces. This is detrimental not only to enterprise economic effectiveness and returns and the state's financial revenue, but also to the rational utilization of construction funds, which leads to excessive growth in the scope of the investment rate in fixed assets and a manmade worsening of the short supply situation for construction materials. Serious attention must be paid to this.

One of the more important complex reasons for this is that the enterprises are still eating from the state's big pot in terms of the management of capital, and still utilize the state's capital for fixed assets without charge. Most of the capital for fixed assets of state-run enterprises at present comes from state financial outlays; very few fixed assets are constructed or purchased by enterprises with their own capital. After the changeover from financial allocation from the state to enterprises to borrowing money for production, due to the fact that according to regulations, the returns of both principal and interest on loans for technical handling purposes or capital construction should come from profits on new investments. Some of the capital needed for fixed assets comes from profit yielding, which is in reality a form of investment in the enterprise by the state. Practice has shown that the system of free granting of capital for fixed assets used

in China has more shortcomings than advantages. Therefore since early 1980, the state has made provisional regulations for sharing economic responsibility by using state capital and paying a fee for using it. This regulation has encouraged enterprises to save on capital and to fully utilize its fixed assets. After the implementation of substituting taxes for profits, the state eliminated the regulation concerning fees on capital in order to protect some of the profit retained by the enterprises. There is little relation between the amount of funds occupied and economic returns gained after substituting taxes for profits. Enterprises still utilize state capital for fixed assets without charge. This shows that further work must be done to improve the state's tax system.

The value of enterprise idle fixed assets constantly falls due to the visible losses of natural attrition and invisible losses. The responsibility for this loss of capital which stems from poor enterprise management should reasonably be expected to be taken by the enterprise, but this is not completely possible due to the management system of fixed-asset capital.

Some comrades believe that the current regulation stipulating that no depreciation should be recorded for unutilized fixed assets of enterprises in reality negates the natural loss of fixed capital and invisible losses which exist in fact. This depreciation system is detrimental to the compensation of loss in the value of fixed assets, and does not encourage enterprises to fully and effectively utilize the use value of fixed assets. This is a form of disguised encouragement to enterprises to maintain idle fixed assets. Therefore these comrades suggest the recording of depreciation for unutilized fixed assets, and its entry into product costs so that there can be adequate compensation for the loss in value of fixed assets. If product costs affect enterprise profits, a reduction in the amount or profit retained by the enterprises will force them to take responsibility for losses incurred due to their economic mismanagement. I do not totally agree with this point of view, and think it warrants further discussion.

First, regarding the scope of compensation of product costs, because product cost is the objectification of production expenses, according to the theory of cost compensation, and recording entry into product costs should be utilized when costs are incurred in production. Otherwise, this should naturally not occur. No depreciation cost should be recorded due to the loss of value in fixed assets that remain idle, because these losses are not directly related to product production. Therefore it cannot be entered under or receive compensation from product cost. This is something that is decided by the economic nature of cost compensation.

Second, as regards the real situation, the overall economic reform has caused great changes to occur in the relationship of distribution between the state and the enterprises. This relationship was fixed on the foundation of the state's tax laws after substituting tax for profits. The profits of state-run enterprises are, according to state tax laws, first concentrated into the hands of the state's financial agencies via tax methods, then the entire after-tax profit is returned to the enterprise which takes

responsibility for gains and losses. This is very different from the past system in which the state took all the enterprise's profits and then allocated operating funds back to it and was also responsible for all losses and gains. In order to expand the rights of the enterprise to utilize capital, the state has already reformed the old depreciation fund's management system, and has decided that 70 percent of the enterprise's depreciation funds are to be retained by the enterprises, while 30 percent are to be turned over to the state. In such a situation, if the enterprise's losses were the results of poor management of idle fixed assets, and yet, through the depreciation method, the losses were added into production costs, this will then reduce the enterprise's profits. According to the principle of the distribution of profit in which the state receives the most, followed by the enterprises and then the individual, most of the responsibility for this type of loss in profit is taken on by the state, which reduces the state's revenue and the amount of construction funds the state can allocate.

Although the enterprise takes responsibility for a small portion of the reduced profits, it retains most of the depreciation funds, which is still economical. Therefore under the current conditions, the method of averaging the value of depreciation still cannot have the effect of encouraging the enterprise to save on capital or to increase the utilization of fixed assets; nor can it effectively put an end to blind investment in construction by the enterprise. It cannot have any sort of practical regulatory or supervisory effect.

To resolve this problem, we should consider collecting a tax on the idle fixed assets of enterprises. This is not only feasible, but necessary.

First, because the enterprise, without charges, utilizes capital of the state for its fixed assets, it is reasonable to expect the enterprise to fully utilize that capital to create and provide an appropriate amount of profit for the state. If the enterprise's subjective efforts are insufficient and it has not carried out its responsibilities, the collection of a tax on its idle fixed assets is a form of fine for the enterprise's failure to carry out its economic commitments.

Second, the existence of idle fixed assets does not really alter the loss in the value of fixed assets. According to the regulation in which depreciation is not calculated for unutilized fixed assets, there will not be adequate compensation for this loss in value, which is detrimental to the renewal of fixed assets, so that this portion of pre-paid capital by the state was lost. Therefore, if these losses are given to the state via a tax on idle fixed assets where they become part of state construction investment funds, it is both beneficial to the state and can ensure the recompense of value and renewal of fixed assets.

Finally, the payment of this type of tax by the enterprise is a kind of "interest" paid on poorly utilized capital. This is necessary because the principle of the tax on idle fixed assets is: the amount of tax is directly

related to the amount of idle fixed assets; if there is no idleness, no tax will be collected. If the enterprises work hard to improve management methods and to duly utilize fixed assets, they can completely avoid paying this tax. This external pressure on the enterprises forces them to improve their management of fixed assets and to energetically deal with idle fixed assets to raise their utilization rate. This will increase economic returns and help control the blind purchase and construction of fixed assets.

If the above understanding is correct, then we can envision the following: First a detailed analysis of the enterprise's idle fixed assets should be made and a tax levied on all idle fixed assets that are due to poor enterprise management. Other idleness resulting from changeovers in production, product improvement, high energy consumption goods that shall be phased out according to state regulation, and idle fixed assets waiting for approval for scrapping should not be subject to tax. As for tax rates, in light of the fact that utilization losses of the visible losses have not yet occurred in this part of the fixed assets, the tax rate should be lower than the depreciation rate for the same category of fixed assets. The fixing of tax rates based on loans for capital construction or loans for technical handling purposes can also be considered. The amount of time fixed assets have been idle should also be considered in figuring tax rates, to form a ladder of increasing taxes in which more is collected according to the length of time of idleness. This tax should be remitted by the enterprise from its profits after other taxes in order not to reduce the revenue the state receives from income taxes. The enterprise should remit the entire amount of this tax to the state, where it will become part of the state's construction funds to be used in the technological reform of present enterprises.

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## FINANCE AND BANKING

## IMPROVED BANK CONTROL OVER RURAL FINANCIAL ORGANS URGED

Beijing NONGCUN JINRONG [RURAL FINANCE] in Chinese No 22, 16 Nov 85 pp 3-4

[Article by special commentator Ma Yuxiang [7456 1342 5046]: "Banks Must Strengthen Control Over Rural Financial Organizations"]

[Text] According to statistics from the relevant departments, 450 (46 percent) of Jilin Province's 966 township-run rural business management stations are engaging in financial activities such as the accumulation and lending out of funds as of this June. The capital comes primarily from the production funds of production teams on deposit in special savings accounts in banks or credit cooperatives, their accumulation funds, public welfare funds, reserve grain funds and village and commune contract guarantee funds submitted to the state. Methods used consist primarily of administrative measures in which savings are handed over for deposit by the production team and approved for credit by the village head. Disparities in revenue from savings, credit and interest revert to the township business management station. Following investigation, we discovered that the stations are faced primarily with the following four problems:

1. Assaults on credit planning: The main funding source for banks and credit cooperatives are savings accounts. The amount of loans that can be issued depends on the volume of savings absorbed. Early this year, while arranging the disposition of funds to support agriculture, the credit cooperatives incorporated the collective savings of the production teams into credit plans and issued loans based on production needs. If these savings are withdrawn and invested in production and circulation, it will certainly disrupt the credit plan and have a negative effect on the balance of revenue and expenditure. For example, the credit cooperative of Danan Township of the Changchun City municipal region was faced with the danger of having to close its doors due to the withdrawal from the cooperative of 240,000 yuan by the business management station this March. The cooperative could only apply for support funds and for a greater share of capital funds from the bank to guarantee its continued functioning. There was great concern in the credit cooperative when the area was struck by violent storms in July and needed funding to engage in production to provide relief, but there was nothing they could do.
2. Detrimental effects on the repayment of debts: The province has experienced bumper harvest for several years in a row and the production teams' ability to repay loans has improved. However in order not to effect reproduction, the

banks and credit cooperatives have allowed the production teams to pay back their years of accumulated debts in longer installments. The concentration of the teams' accumulation funds by the business management stations for unified use will inevitably have a detrimental effect on the repayment of debts. For example, despite excellent economic conditions, 1.2 million yuan in debts have not been repaid to this day in Nanweizi Township of the Gongzhuling region. Of this sum 240,000 yuan have not yet been identified. The centralized management and utilization of the production teams' funds by the township's business management station has been detrimental to the collection of back debts.

3. Negative effect on the management of credit funds: The banks and credit cooperatives have gained much useful experience regarding credit management. However due to the meddling into lending of the business management stations, in particular the practice of making numerous loans to single borrowers, have been detrimental to the management of credit funds and can easily lead to a waste of capital. High funding input does not necessarily mean good economic returns, and if input is greater than output, and funding is not compensated for, more stagnation in credit created. Therefore, these practices are detrimental to the improvement of management and the promotion of economical utilization of funds.

4. Detrimental effects on control over the scope of credit: The end of year norms for bank credit fund plans are part of the directive planning system of management. In order to prevent going beyond the yearend credit norms of the bank's higher levels, branches at all levels must strictly control the scope of credit. However, due to the fact that the township business management stations have drawn off savings of the production teams from the credit cooperatives when engaging in credit activities, quite a few cooperatives have no way of maintaining a normal turnover rate, and the banks must grant them supportive loans, which reached the sum of 112.68 million yuan by the end of July in our province alone, for a 30-percent increase over the same period last year. Although the main office demanded that the provincial branch reduce the 3.73 million yuan of support credit to the credit cooperatives by 1 million yuan, by the end of July not only had this not been done, but the sum had been increased to 108.95 million yuan, which presented us with a very serious problem. Of course there were other reasons for exceeding the plan, however, the harmful effects of the credit activities of the township and town business management stations on the control over the scope of credit were quite obvious.

It is my belief that in order to correctly resolve the problem relating to credit activities of the township business management stations, the state banks must improve management according to the relevant regulations to maintain normal operations in rural financial markets. In Article 3 of the "Temporary Ordinance Concerning Management Over the Establishment and Withdrawal of Financial Organizations" of last October's Document No 196 of the People's Bank of China (84), it states: "The People's Bank of China is the major agency of control over China's financial organizations. Any department or unit that wishes to initiate financial activities and establish or withdraw branch organizations must first apply for permission from the People's Bank or other empowered agencies. If approval is not granted, the People's Bank of China or other empowered units have the right to take the necessary economic and administrative measures to

order cessation of financial activities." In his address at the conclusion of the National Symposium of Bank Branch Directors held this June 28, Comrade Han Lei [7281 7191], director of the Agricultural Bank of China's main office, pointed out: "There are some peasant households that have now opened their own banks, while in some places the savings of the production teams are concentrated in order to form financial service cooperatives that accept money on deposit and engage in credit activities. It ought to be made clear that any organization that engages in savings and credit activities is a financial enterprise, no matter what it calls itself, and must come under financial supervision and seek the approval of the People's Bank (or the Agricultural Bank) before it can begin operations. It must be in possession of the minimum amount of funds required by law, submit preparations funds according to regulations for withdrawal and deposit, have a healthy accounting system, send monthly reports, business and financial, to the People's Bank (or the Agricultural Bank) and submit to the inspection, supervision, and guidance of the banks. It must implement the credit policy of the state, and cannot indulge in the 'three neglects.'" According to the "Temporary Ordinance Regarding the Management of Financial Organizations" of the People's Bank of China, all financial organizations must meet the following requirements: There must be an economic need for the organization, which must also be able to conduct a fairly large volume of business; it must be in possession of the minimum amount of capital required by the People's Bank of China; there must be management personnel who have an adequate understanding of financial services; the organization must operate in accordance with principles of business accounting; the organizations must have a complete charter.

Based on the above, it is my belief that the banks should submit proposals to prefectural party and governmental departments, act as their consultants and take energetic measures to improve management over township and town financial organizations. First, the regulations and main idea of the state regarding the establishment of financial organizations must be widely propagated to enable the relevant departments and units to understand and follow the related regulations. Second, an overall inspection of township and town financial organizations must be undertaken. Licenses can be issued to all those that meet the necessary requirements; those that fail to attempt to meet requirements should be closed down, and the banks must take the necessary economic and administrative measures to fix legal responsibility. Third, supervision and management over the review and approval process of township and town financial organizations must be improved so that they obey the state's financial laws codes, policies and systems, submit preparatory funds for withdrawal and deposit according to regulations, send in monthly business and financial reports, and submit to the inspection, supervision, and guidance of the banks.

The banks and credit cooperatives must give full play to their role in guiding, harmonizing, and directing rural funds and take various measures to increase the number of savings networks, improve service attitudes, initiate proxy activities, issue bonds, expand the use of shareholding in credit cooperatives, make a great effort to organize rural capital, and satisfy as much as possible the needs involved in developing rural funding. We must guide the accumulation of rural capital and private credit onto the right track, attack illegal financial activities and guarantee the stable development of the rural financial market.

FINANCE AND BANKING

RAISING INTEREST RATES TO BALANCE CREDIT URGED

Taiyuan SHANXI CAIJING XUEYUAN XUEBAO [JOURNAL OF SHANXI FINANCE AND ECONOMICS COLLEGE] in Chinese No 6, Dec 85 pp 23-24

[Article by Qu Zhaozhong [2575 2507 0112]: "Raising Interest Rates Is an Effective Measure in Balancing Credit"]

[Text] Due to the overly rapid growth of consumer funds and the excessively large scope of investment in capital construction, bank credit funds have gone out of control, and the People's Bank has issued too much currency, reaching 26 billion yuan in 1984, exceeding the planned amount by 36.8 percent. Because of this serious imbalance in bank credit, the state took a series of measures to control the scope of investment and the growth of consumer funds, measures which have already achieved definite results. Statistics for the first half of 1985 demonstrate: state-run institutions and enterprises have gained some control over loans compared to the beginning of the year, as have investments within the plan in other areas. However, these measures have not been very effective due to the vast number of profit-seeking units belonging to collectives, independent households, and state-run institutions and enterprises, and the scope of credit has continued to inflate compared to earlier this year. Capital construction investment increased more than 40 percent over the same period last year of which extra-budgetary items showed an increase of 100 percent. Cash expenditures for wages grew approximately 30 percent over last year at the same time, of which bonuses grew by more than 70 percent. Overall, investment within the plan has been controlled, but locally raised investment outside the plan, whose funding mostly relies on credit, continues to grow.

Given the short supply of state capital, the only way to effectively control inflation is by recalling the excessive amount of currency that exceeds the commodity capacity of the market. There are two ways to go about this: one is to absorb currency via a sufficient amount of high-quality commodities, causing a shift of position between the two (commodities and currency), which would be mutually beneficial to both consumer and state; another is to use savings to concentrate the idle capital consumers and society in the banks. The state would utilize it in construction and the consumers would also benefit. Of course, the first of the two methods is better, but given the present situation, it would be impossible to manufacture within a short period of time a large amount of high-quality commodities that could satisfy



all the needs of consumers (to import them all would not do, as it would be detrimental to domestic manufacturing enterprises). Therefore, we can only recall some currency from the market and use methods relating to savings and credit to withdraw the rest. This means instituting an interest policy that would be able to attract the idle capital in society into the banks and limiting the blind taking of loans by enterprises. This policy will require a large-scale increase in interest rates.

1. It will not entail an ordinary increase in interest rates, but a large-scale, double-digit increase to an annual rate of increase of more than 10 percent. Of course, this refers to the general level, as distinctions have to be made among the various industries, so that interest rates for projects involving products in good supply and less important projects will be particularly high.

2. High interest rates will include credit and savings account interest. However, credit interest generally must be higher than savings account interest. The purpose of raising credit interest is to test potential borrowers among enterprises and individuals so that they will hesitate and give the matter of seeking credit plenty of thought before making a decision. All potential borrowers are also to be treated equally.

3. High interest rates will involve definite time limits. There cannot be any time restrictions, nor can terms be too short. The relevant departments and banks must seriously calculate currency needs for the next 2 or 3 years, examine the amount of currency issued, and then designate approximate time limits based on the principle of the balance of credit and of currency supply and demand.

4. A minimum term for high-interest savings accounts must be determined, for example, at least 3 to 5 years. All urban and rural residents or economic units with savings accounts must strictly follow the regulations and not withdraw funds before the designated time. If withdrawals are made due to special circumstances, all remaining funds are to earn ordinary interest.

5. The state can consider giving discounts to commercial departments for use in loans for seasonal reserves and for the purchase of agricultural byproducts; or ordinary interest rates can be used. Separate regulations could be drawn up for that. The state should grant discounts for energy, posts, transportation and communications, basic facilities (culture, education, environmental protection, etc.), and all key state projects and products in short supply.

6. Loans must be repaid upon reaching term to be lent out again, and principal must be reimbursed along with interest. If the principal cannot be repaid within the time limit, an extension should be granted with a doubling of interest. Those unable to repay should use their property as security. When a borrower applies for credit after paying off another loan, proposed usage of credit and ability to pay must be reexamined.



7. Once inflation abates, commodity prices become stable and credit is balanced, the state can lower interest rates at any time, beginning with savings accounts interest, gradually reducing rates to avoid confusion.

Specific details and measures can be discussed and gradually improved by the relevant departments.

The advantages of high interest rates lie in:

1. Excess idle capital and currency can be concentrated and used by the state in construction to avoid further inflation which is in the interests of the state and individual.

2. The money market can be tightened and arbitrary, unitary measures can be avoided to put objective pressure on borrowing units and limit their blind expansion of investment and borrowing.

3. The state cannot issue or can issue a small amount of currency within a brief period of time to maintain a stable amount of currency on the market, thereby providing conditions to further adjust economic relations and concentrate on wage and price reform. In addition, the corresponding decrease in inflation can effectively curb the increase in commodity prices.

Using high interest rates is not a perfect method and involves the following inadequacies:

1. New difficulties will surely be created for some enterprises that manufacture products in good supply, forcing some to stop production and close down. Therefore: a) the state must draw up an appropriate bankruptcy law; b) mortgages and security must be used in extending credit. Upon failure to repay, property put up as security should be mortgaged (or confiscated for use by the bank or by units that assist in repayment). This will inevitably lead to problems in work assignments for some people.

2. It may lead to high-interest loan activities on the black market by some collectives, self-employed households, and even individuals utilizing their own capital. The state, banks, and taxation, industrial, and commercial departments must coordinate their efforts to manage and rigorously eliminate this phenomenon.

In summation, the use of high interest rates has both advantages and disadvantages. However, at present the rewards are greater than the problems as far as we are concerned. Furthermore, our use of a policy of high interest rates has a definite basis to it. First, ours is a planned commodity economy, and the law of value and the law of supply and demand function in any commodity economy. Second, after an overview of the issuing of paper money throughout the world whether in capitalist or socialist countries, one can see that inflation exists everywhere to differing degrees. In other words, inflation is the product of the circulation of paper currency, the total volume of which cannot be precisely planned. When a bit too much is issued and the amount of currency in circulation exceeds the needs of social commodities,

rises in commodity prices will inevitably occur, which in turn, cause inflation to intensify. This increasingly intensified alternation between these two phenomena is commonplace in capitalist countries. Due to the ineffective use of macroeconomic controls in capitalist countries, a long time is required before economic measures can take effect. In China, this upward-bound spiral of increases in currency circulation and commodity prices cannot be allowed to happen. In addition to taking the necessary administrative measures, we must use economic methods to control and guide. Therefore, the use of high interest rates during a time of inflation and a tight money market can be regarded as an effective measure. Third, although in the past we never implemented this type of interest rate, it is completely acceptable, now that we are engaging in economic reform, particularly reform of the price system, to utilize this economic lever as part of the financial reform to gradually balance the credit situation. This would be in total accord with the spirit of "exercising good control over larger areas while loosening restrictions in smaller areas."

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31 March 1986

## FINANCE AND BANKING

## ROLE OF AGRICULTURAL BANK IN FOREIGN TRADE DISCUSSED

Beijing NONGCUN JINRONG [RURAL FINANCE] in Chinese No 22, 16 Nov 85 pp 5-6

[Article by Ren Lichang [0117 0500 1603]: "A Discussion on Shifting the Focus of Foreign Affairs Work in the Agricultural Bank"]

[Text] The Agricultural Bank of China possesses a good foundation for intercourse and contact with foreign banks and financial organizations. Its influence is increasing daily in international, financial and economic circles. Foreign affairs work of the Agricultural Bank of China has become more and more frequent along with the implementation of China's open door policy and rural economic reform, both of which have caused quite a stir internationally. The various organs at all levels, departments, and the leadership of the bank are now faced with the new issue of how to further develop the situation.

How shall we shift the focus of the bank's foreign affairs work toward the development of international economic cooperation? How shall we enable the foreign activities of the entire bank to root itself in the serious implementation of China's open door policy and to make an effort to serve the construction of the four modernizations? I believe the shift in the focus of work must be undertaken via business contacts with foreign banks and financial organizations in order to greatly promote economic cooperation between China and foreign countries, in particular in the areas of agricultural economic and technical cooperation, rural financial services, and in funding cooperative efforts.

This year the bank's main branch and some of the provincial branches have taken positive exploratory steps in the development of technical and economic contacts. Recently the Central Cooperative Bank of Austria sent three delegations to China for several discussions with the relevant departments of the Agricultural Bank on economic cooperation and professional banking. With the participation of the main and some provincial branches, the delegation conducted negotiations with and investigations of the Agricultural Bank's customers on economic cooperation projects, achieving good results. In April and May the Austrian bank sent a delegation consisting of bankers, agronomists, and agricultural engineers on an inspection tour of Beijing, Dalian, Xi'an, Chengdu, Wuhan, and other places lasting 4 weeks, and made inquiries into the possibility of cooperation in the processing of fish and seafood, fruit, fodder, vegetables, and other agricultural byproducts. Fourteen economic

cooperation agreements were signed (including 10 projects), providing both parties with an even better foundation for further contact. For example, Xinjin County in Dalian entered on to a joint-capital venture to develop a 10,000-mu prawn farm and constructed a cold storage facility, an indoor shed for the raising of baby prawns and a fodder-processing plant. The project entailed an investment of 36 million RMB, with each party providing half. As most of the products are to be sold abroad, the project will earn much foreign exchange. In Xi'an, compensatory trade and the provision of a preferential loan by Austria were used to create the "Xi'an Zhonghua Artificially Cultivated Commercial Yangtao Orchard," with a total area of 10,000 mu, including a seedling nursery of 100 mu. China provided land for the construction of the orchard, excellent seeds, cultivation techniques, orchard workers, a protective forest belt, and so on, while Austria provided capital for construction, irrigation and drainage equipment, and advanced facilities and equipment for storage use, laboratory tests, etc. The total amount invested came to more than 27 million RMB, and the project will be completed in 3 years. During periods of peak production, the orchard will have an annual output of 10,000 tons of fruit. Other forms of cooperation have been adopted to dovetail with this project to establish the "Xi'an Zhonghua Yangtao Beverage Factory" which will produce a yangtao drink, canned, dried, and powdered yangtao, all of which are highly nutritious, healthy and health-care agents. These cooperative projects will be implemented after final business negotiations. In addition, many foreign banks have come to us seeking to cooperate via the Agricultural Bank of China and further develop channels of economic coordination. They are paying close attention to the important role played by the Agricultural Bank in China's rural economic reform and are eager to work with the bank.

How shall we develop business and economic cooperation with foreign countries. We still lack experience in this regard. Only by engaging in business and related domestic contacts can we discover problems that will require attention and study in order to be resolved.

First, we must understand the position and role of the Agricultural Bank within the open door policy.

The open door policy is a basic national policy of China. How to implement this policy is a problem requiring the consideration of every department, and the Agricultural Bank is no exception. It must be understood that there is a very close connection between the open door policy and the bank. The policy cannot exist without banks and the Agricultural Bank is particularly so. Along with the rural reform, China's agriculture and rural commodity economy will develop increasingly in the direction of foreign markets. China's agriculture will become export oriented and will no longer be closed off to the outside. The open coastal development zones will open further, and thereby export-oriented agriculture. In this, the Agricultural Bank will play the rein to its own special role, functioning as a linking link and bridge in the development of foreign economic cooperation based on its role in the domestic rural economy and its credibility and position in international financial circles. To do this we must first resolve problems relating to our understanding of the situation and expand our marketing and economy. The

Agricultural Bank must base itself on a foundation of domestic agricultural finance and gradually develop outward, ceaselessly expanding international contacts and professional and economic cooperation.

Second, the various departments of the bank must coordinate their work in foreign affairs.

The foreign work of the Agricultural Bank, like its domestic work, is a task held in common by departments of all functions, and is certainly not the task of just one department. To a great degree, domestic needs must be considered in the development of foreign work. There must be close coordination among all the departments, for example, after gaining approval to raise foreign credit funds, the planning departments must first consider from the overall point of view the scope of capital to be borrowed; credit departments must study proposed projects that are to utilize foreign capital; departments that deal with foreign concerns must study the situation on the international financial market and the level of capital and credit of foreign banks; accounting departments must study economic cost accounting, etc. In short, problems relating to the necessity and feasibility of the utilization of foreign credit must be analyzed together. Another example would be aiding domestic enterprises in importing advanced technology and equipment, undertaking joint ventures with foreign businessmen, compensation trade and earning foreign exchange via export, none of which are projects that can be independently completed by one department, not to mention merely one bank. Now that we have just initiated economic cooperation with foreign countries, it is vital to have a definite grasp of the overall task and the division of labor of departments with differing functions in this regard. Otherwise, foreign and domestic work will become divorced from each other, thus making matters difficult to handle.

Third, cadres must receive training in foreign work.

The foreign work of the Agricultural Bank is a new business. Our cadres generally lack professional knowledge in this regard. Initiating and strengthening training in foreign business work is necessary. The idea is not to train a minority of people, but to conduct widespread education of all the cadres in the relevant departments. Of course, we can be flexible as to methods used. From now on, cadres of the Agricultural Bank, including even those working in mountainous regions, must have a certain understanding of foreign business work and international agricultural financing, and have to learn how to deal with foreigners.

Foreign business work encompasses knowledge in various fields, such as foreign economics and trade and foreign exchange, all of which must be understood to a certain extent. Noteworthy problems regarding negotiations, inspection tours and signing contracts also need to be understood so that we can gradually attain our goals in foreign economic cooperation work.

Fourth, there must be a plan for developing foreign business work.

At present, our foreign business work remains at the stage of general contact. In the long run, we must proceed from the reality of China's rural finance



and study and designate a development plan for foreign business work and create economic cooperation projects with foreign concerns according to schedule. This type of planning work must be engaged in by all the provincial and development zone branches as well as by the bank's main office. Foreign business work must be gradually incorporated into the daily work of the bank at all levels, all of which must seek to create breakthroughs in a short period of time and gradually accumulate experience and expand foreign business, fully making use of the role of the Agricultural Bank in foreign business work.

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## FINANCE AND BANKING

### CONSTRUCTION BANK ISSUES TRIAL RULES ON CREDIT CONTROL

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 10, 4 Oct 85 pp 23-25

[Article: "Construction Bank's Trial Regulations on Credit Control"]

[Text] Item 1: Guiding Thought on Restructuring the Credit Control System

Based on the State Council's nationally published (1985) Document 51 and "Supplement of the People's Bank of China in regard to the Construction Bank's implementation of 'Trial Regulations on Credit Control,'" this regulation has been drawn up in order to strengthen credit control by all branches in accordance with the spirit of required tightening of control macroeconomically and required flexibility microeconomically, to implement the economic responsibility system of branches at all levels, to fully bring the initiative of these into control and to use credit funds, to try hard to attract savings, to assure money for planned projects, to accelerate the technological advancement of existing enterprises and the development of capital and building construction, and to improve the useful results of credit funds.

#### Item 2: Credit Control of System

The main office of the Construction Bank (hereafter called main office) has implemented regulations of "unified planning, graded control, margin control, implementation of loans and savings, turning over the difference in savings" for all provincial, municipal, autonomous regional branches (hereafter called branches) on the plan's list.

**Unified Planning:** Each branch's complete their credit income and expenses (not including financial allocations, loan portions) must be brought into line with the credit plan of the main office throughout the country, with its approved plan to actively attract savings, reasonably grant loans, and assure the success of the plan.

**Graded Control:** Under the guidance of the unified plan, clarify the limits and responsibility of credit control of branches at all levels. Based on the actual situation in the locality, each branch will implement graded control to completely arouse the enthusiasm for and the initiation of credit control.

**Control of Margin:** The main office, based on the state ratified credit-control budget and credit-difference plan, the sources of funds, and the situation for using funds in each branch, notifies each branch of its excess savings or excess loan amount. Within the scope of the plan for controlling credit differences, where savings attracted and other funds are large, on the basis of national banking policies and principles, they can make loans and use. Where less savings are attracted, the value of loans will be correspondingly lower.

**Implement Savings and Loans:** Branches with excess loans will ask for loans from the main office or from branches of the People's Bank on the basis of the loan shortage plan, level by level, to allocate funds to prefectural and municipal, administrative branches and management offices (hereafter called level offices.) Banks with household savings accounts opened at the People's Bank will turn over the extra savings.

Branches which in the plan have extra savings, based on the main office's ratified excess-saving plan, will turn over to the main office each month extra savings which will in turn be given to those branches which need to borrow extra funds.

### Items 3: Planned Control of Credit

**A. The Scope of Planned Control of Credit:** Sources of credit funds include: savings deposits of all types, the same year's closing profits, and their own funds. Uses of funds include loans of all types, business working funds, cash reserves, the same year's closing losses, and others. The savings margin occurs where the amount of savings is greater than the uses of funds. The borrowing margin occurs where the use of funds is greater than the source of funds.

**B. Drawing Up and Transmitting the Plan:** Each branch shall report to the main office in light of the annual credit plan expressed and drawn up by the main office's regulations, and also send a copy to the local branch of the People's Bank. After the approval of the plan by the state Construction Bank, the main office will approve and make known, and send a copy to the main office of the People's Bank. Excess savings and excess loans are both guiding plans. The savings-margin plan must be fulfilled; the excess-loan plan cannot be ever fulfilled. The excess-savings plan issued by the main office is the amount of credit that the branch should deposit with the main office. The excess-loan plan is the amount of loans to be issued from the main office or from branches of the People's Bank.

**C. Control of Fixed-Asset Loans:** Capital-Construction loans must be strictly controlled in accordance with the state plan. Loans without fixed terms cannot be increased if the remaining sum cannot be repaid. Most loans can be turned over and used again.

**D. Plans Directly Arranged by the Main Office:** These include loans for equipment and reserves for capital construction of the Central Committee, loans for specialized projects for converting from gas to coal, loans entrusted to

departments of the Central Committee, temporary capital construction loans of the Central Committee, etc. These are carried out according to the loan plan issued by the main office and cannot be fulfilled excessively. The main office issues the plan to the branches which transmit it to the basic level branches to handle.

E. Revision of the Plan: After approval of the annual plan, the capital-construction loans to the main office and other loan projects, where the actual issued loan plan is greater or less than the original plan, as well as increased or reduced projects, voluntary and uniformly revised saving plans can be correspondingly increased or reduced as can the amount of loans borrowed. Due to changes in objective conditions, when the annual plan for revenues and expenses needs adjustment, the branch should report in writing to the main office any details and causes. After examination by and approval of the main office, the plan may be systematically adjusted.

#### Item 4: Control of Funds

Different regulations are adopted toward different channels of funds based on characteristics of business funds of the Construction Bank.

A. Funds provide the principle of first allocate, then use. Each branch must send a quarterly report to the financial department at the same level on financial allocations undertaken month by month. Loans must be promptly requested from the financial department at the same level, level by level, based on the stipulations regarding fund allocations. Funds should be accounted for separately and should not crowd each other out. In order to secure the rational supply of funds, each branch must pay attention to controlling allocations, and loan disbursements, and to promptly reporting the situation to the financial department.

B. Loans for special projects entrusted to the People's Bank. The level of office entrusted will supply funds from the People's Bank at that level. First allocate, then loan. Specific regulations will be handled in accordance with the stipulations of the People's Bank.

C. Loans for equipment, financing of capital construction of the Central Committee where funds are supplied directly by the main office. Loans for specific projects of capital construction with rail, loans entrusted to the department of the Central Committee, provisional loans of capital construction of central authorities and others. The basic-level office, based on the loan-use schedule for loan projects, in light of regulations on allocation of funds, will be applied from below, allocated from above.

D. Besides the three types of funds listed above, all revenues and expenditures of the remainder of credit must be brought into line with the comprehensive annual balance plan and control must be strengthened in a planned manner to attract savings and rationally plan loan disbursement. The main office will issue control quotas of credit revenue and expenditure to all the branches, quarter by quarter. Based on this, and in light of the situation in the current quarter, each branch must draw up a quarterly implementation plan for credit revenue and expenditures month by month for each quarter.

Each branch should draw up a plan for implementation of credit revenue and expenditure based on this and the situation in each quarter which should be reported to the main office for comprehensive balancing and approval of the amount of savings or loans for each quarter, month by month. Where there is a savings surplus, the office should turn over these savings to the main office promptly in order for it to transfer these funds to the offices where there is a loan surplus. The branches which have a loan surplus should borrow from the main office, in light of approved loan-surplus plans, to allocate and give to the level branches for their use.

After the Construction Banks throughout the country become loan-surplus banks based on the loan plan issued by the main office, the approved amount of loans issued by the main office of the People's Bank may handle loans within the plan for branches of the People's Bank according to actual need and may allocate these loans to the base-level branches to use.

Credit and funds must be promptly allocated, taken from many to make up for the few, be flexibly managed and mutually adjusted.

1. Branches at all levels in their day-to-day work should carefully calculate the difference between total sources and uses of funds and flexibly manage funds in order to assure their supply. Under the premise of ensuring the savings withdrawal and loan needs within the plan, the surplus savings should be turned over to the branches promptly. Each branch of the People's Bank where funds exceed the approved amount for the business working fund should unconditionally submit that excess to the control of the office at the next higher level.

2. During the process of carrying out the annual plan, such as when seasonal savings decline and loans appear to rise, causing a shortage of funds, each branch can, by means of a written quarterly implementation plan or special report, explain the situation and reasons. This report should be delivered to the main office of the People's Bank in order to apply for a seasonal temporary loan. The main office, after gathering and collecting and balancing, will submit a provisional loan plan to grant a loan or issue loan targets. The branch borrows funds from the branch of the People's Bank. This type of loan ought to be repaid on schedule within the year.

3. Each branch, that during the carrying out of the plan, encounters critical loan shortages, when there is not enough time to request funds to be transferred, may have the local People's Bank branch handle a temporary loan or have the branch using the funds, borrow funds from the specialized banks on the spot. Each branch that has a temporary surplus of credit, under the premise of not interfering with the unit's right to use funds and turn over savings, may also lend funds to other specialized banks.

#### Item 5: Control of Turning Over Savings

Financial savings which should be handed over to the People's Bank in response to the plan, should be turned over based on the scope of the provisions. Enterprise savings attracted by all branches, trust savings, and other savings,



must be turned over to the People's Bank at the same level, according to regulated proportions (in 1985, 30 percent). The detailed points and specific regulations will be handled in accordance with the Chinese People's Construction Bank's "Provision on Handling Accounts of Business Funds."

#### Item 6: Approval of Business Circulating Funds

In order to assure working funds for planned projects, withdrawal of savings by enterprises, funds allocated along the way, cash activities, and other needs, branches at all levels must keep the necessary business circulating funds in savings at the People's Bank. The main office will approve and give business circulating funds to the branches in accordance with the size of the business, the number of business organizations, traffic and communication conditions, etc. The branches will distribute these funds level by level. These types of working funds where each branch has drawn up an annual credit plan for revenue and expenditure, will arrange the use of funds based on the approved amount to check differences by correspondingly reducing savings in those branches with a savings surplus and increasing loan funds to those with a surplus of loans. However, at the year's end, the funds must be returned to the People's Bank and not be used to increase the size of the loan.

#### Item 7: Control of the Interest Rate of Bank Savings and Loans

In order to improve the results of the use of funds, there will be a different rate of interest for savings and loans.

1. There will be no computation of interest on funds turned over to the People's Bank.
2. The rate of interest on savings will be .36 percent monthly on ordinary savings turned over to the People's Bank and in savings accounts there.
3. The rate of interest on loans by the People's Bank, on approved circulating fund loans, will be .36 percent monthly; for planned loans, .39 percent monthly; for short-term loans, .42 percent.
4. For loan funds from other specialized banks, the interest may be agreed upon by each branch independently.
5. The internal Construction Bank interest rate, for funds turned over to the main office by branches with a surplus of savings, funds granted in loans by the main office in carrying out the plan, business funds of allocated money and surplus credit funds along with joint mutual funds, will calculate interest uniformly on the basis of .39 percent monthly. Interest on temporary loans will be .42 percent monthly.

#### Item 8: Control of Credit Funds in SEZ's and Areas Inhabited by Minority Nationalities

A. The four SEZ's, Shenzhen, Zhuhai, Shantou, and Xiamen, and Hainan Island, will keep all existing credit funds and attached savings for branches in the

special zones to use. The credit control regulation's interest-rate policy of these areas will be carried out in accordance with the total regulations of the provisions of the local People's Bank.

Management of funds in the branches in the SEI's will remain the responsibility of the provincial branches.

B. The main office, in approving the differences in the areas inhabited by minority nationalities and undeveloped areas, will make appropriate allowances.

Item 9: Examination and Analysis of Situation in Carrying out the Credit Plan

A. Each branch must analyze and examine the revenue and expenditure plan, monthly, quarterly, and annually. The summary must include whether the plan for credit revenue and expenditure was carried out well or poorly, the main characteristics and causes of the increase or decline of primary savings and loans, along with new conditions in local finance, what has appeal in the area of fixed-asset investment, new problems, trends in studying changes in banking credit, and suggestions and countermeasures. Besides periodic examination and analysis of the situation in carrying out the plan, specialized analysis of major problems on the basis of thorough investigation and study must also be done.

B. Branches at all levels must promptly send reports of the situation in carrying out the credit plan and statistical forms on credit revenue and expenditure to the higher level branches. At the same time, there must be sent to the local People's Bank. The form for the statistical report, the substance of its targets, and the date of sending will be provided by the main office and other branches.

C. The plan for credit revenue and expenditure of the branches of the cities in the plan, examination and analysis of the situation in carrying out the plan, statistical forms on credit revenue and expenditure, etc., may be reported to the main office and provincial branches at the same time. However, the relevant provincial branches, in relaying the above-mentioned plan to the main office should include the number of branches of cities in the plan, and list clearly the relevant number of city branches among them.

Item 10: Strengthen Leadership; Make Clear the Division of Labor; Act in Close Coordination

A. Branches at all levels must put into effect the system of office managerial responsibility. The manager responsible for credit work controls credit funds, with one person approves plans, personally controls development of the local economy and activities and provisions of funds at his branch.

B. All branches at every level must establish personal responsibility by the manager. Every 10 days, fund-control meetings must be organized to plan accounting and other work, comprehensively review credit revenues and

expenditures, forecast local economic development and trends in credit funds, and balance the question of surplus or shortage of relevant credit.

C. Under the unified leadership of the manager, each specialized department will clearly divide work, act in close coordination, control and use credit funds well.

1. Business credit departments are responsible for organizing, developing credit, granting loans, control and recall, drawing up savings and loan plans. The department is responsible for evaluating, examining, and approving loan projects, for improving savings and loan information of management units, and for assembling and calculating the quantity of revenue and expenditures quarterly.

2. Accounting departments are in charge of business funds and credit funds, exchange of funds in the interval, assembly and calculation and compilation of differences in joined branches, control of fund allocation 10-day reports, requests for financial funds, handling of allocation of funds, turning over of savings and transfer of funds and other business procedures.

3. The planning department is responsible for the overall balance of credit revenues and expenditures, the drawing up, examination and approval or adjustment of the annual and quarterly credit plans, control of the credit-surplus quotas, control of the scale of circulation, statistical reports on credit revenues and expenditure, inspection and analysis of the situation in carrying out the credit plan promptly, feeding back information and advancing countermeasures and suggestions.

Item 11: Based on this regulation, each branch can formulate detailed rules of enforcement, and promptly report to the main office the situation and problems in regard to trial regulations.

Item 12: This regulation is effective 20 November 1987.

13103/1/147  
1330: 4/04/148

INDUSTRY

SHANGHAI'S INDUSTRIAL GROWTH DURING SIXTH 5-YEAR PLAN

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 23 Oct 85 p 1

[Article by Lou Baoheng [2869 5508 5683]: "Shanghai's Industry Continues To Develop Steadily"]

[Text] Data published a few days ago by the Shanghai Statistics Bureau showed that the city's per capita output value for last year was over 30,000 RMB. This figure is equal to 2.2-fold the output level of workers nationally. It is predicted that by the end of this year, the productivity of industrial laborers throughout the province will rise 17.5 percent over the level of 1980, greatly surpassing the goal set by the Sixth 5-Year Plan.

This data from the Shanghai Statistics Bureau also indicated that during the period of the Sixth 5-Year Plan Shanghai's industrial productivity was characterized by continual, coordinated, and steady growth. At the present time, most of the economic goals established by the Sixth 5-Year Plan for this year have already been accomplished or basically accomplished.

From 1981 to 1984 Shanghai's industrial gross output value increased at an annual rate of 6 percent and reached the Sixth 5-Year Plan goal 1 year ahead of schedule. Output value for the first three quarters of this year surpassed the output value level for the entire year of 1980.

Shanghai has met the goals from 1 to 2 years ahead of schedule for 25 of the 50 main products in the Sixth 5-Year Plan, including steel, rolled steel, cement, and plate glass. It is estimated that by the end of this year, except for nine products, including cotton cloth and wrist watches, whose goals cannot be met due to changes in market needs, the goals for the other 41 products will be met or surpassed.

During the Sixth 5-Year Plan, Shanghai's light industry increased faster than its heavy industry. During these first 5 years, light industry increased at an annual rate of 7 percent while heavy industry increased at a rate of 5 percent. Production increased between 2 to more than 10 times for manufactured goods for daily use, such as color televisions, tape recorders, washing machines, refrigerators, cameras, and other high-grade durable consumer goods. At the same time this occurred, throughout 5 years the funds Shanghai used for

technological reform also increased yearly, averaging a 22-percent increase annually. From March 1983 to August 1985 the municipality imported advanced foreign technology or equipment on 809 occasions and started over 80 enterprises with foreign funds.

In the process of reforming the municipality's economic system, enterprise vitality was increased and economic benefits for enterprises were raised. During the Sixth 5-Year Plan, the amount of tax revenue and profits turned over to the state by Shanghai Municipality was equivalent to 3.2-fold the original value of its fixed assets.

12704/9312

CSO: 4006/321



## INDUSTRY

### DEVELOPMENT OF TERTIARY INDUSTRY STRESSED

Beijing JINGJI LILUN YU GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 4, 28 Jul 85 pp 15-20

[Article by Du Tiezhang [2629 6993 4545] and Zhang Fan [1728 0416]: "Speed Up the Development of China's Tertiary Industry"]

[Excerpt] II. Great Development of Tertiary Industry Is a Pressing Demand of China's Current Economic Development

For a long time, we regarded tertiary industry as the product of the "three in one" theory of vulgar bourgeois economics, and labeled it as an anti-Marxist theoretical forbidden zone. No one studied it seriously. Nor was tertiary industry allowed its proper place in practice. This avoidance and isolation led to the stagnation of China's tertiary industry. According to preliminary figures of the relevant departments, tertiary industry workers did not even account for 20 percent of the total work force and only a little more than 18 percent of the GNP was represented by tertiary industry. In the United States these figures in 1980 were 66 and 63 percent, respectively; in Japan they were 49 and 55 percent, and in India, 18 and 37 percent. In other words, not only is the level of development of China's tertiary industry lagging far behind that of developed countries, but it is behind that of some developing nations as well. Of China's tertiary industries, service industries and public utilities are the most backward. The combined production output value of the two only account for 1 percent of China's GNP. The combined figure for culture, education, health and scientific research is slightly more than 3 percent, while for developed nations, the percentage is usually around 30 percent. In particular the new departments of intellectual labor, such as information, communications and computer software which form the core of tertiary industry in developed countries, have not yet become independent fields in China.

The stagnation and backwardness of tertiary industry has been detrimental to production, the people's living standards and the balanced development of the national economy in China. It certainly cannot meet the needs of the current overall economic reform.

First, the backwardness of tertiary industry causes bottlenecks in the area of circulation and does not suit the needs of the development of large-scale commodity production and exchange. At present one-fourth of railways are

operating at a level exceeding the saturation point. The 14 major "stations with limited transport capacity", can only meet approximately half of the freight needs. Total water route shipping mileage is falling instead of increasing, and has dropped from 1.73 million km in 1960 to the current 1.08 million. Highway transportation is also quite backward. Due to this overload on limited transportation facilities, production is often determined by the amount of transport available, and work stoppages caused by delays in receiving materials are common. On one hand, cities are not supplied with all the agricultural byproducts necessary, while, on the other hand, the fruits of the peasants' hard labor literally rot waiting for transport. Products lack the appropriate practical conditions, and production and consumption have become disjointed from each other, which has been harmful to the development of production itself.

Second, the backwardness of tertiary industry hinders economically central cities from playing their multifunctional role, and is not suited to the needs of organizing the economy based on the city as center. Our past overemphasis on industrial development in urban work to the detriment of tertiary industry and the isolation of economic departments from each other, have led to the gradual shriveling of the city's multifunctional role as an economic center. Shanghai, China's largest economically central city, was once a flourishing commercial metropolis. Its Jiangxi Road was known as the "Wall Street" of the Far East, while the city itself was a center of science, technology and information services. However, due to the above reasons, Shanghai's economic role became increasingly unitary. Channels for commodity circulation decreased and buying and selling became difficult. Postal and telegraph services were backward, as were other forms of communication. Financial services shriveled up so that they could no longer support production, while the city's advantageous conditions for scientific and technical research were underutilized. Shanghai's multifunctional central economic role in serving the interior and catching up with international standards was reduced. This is not suitable to the realization of our hopes of reform by relying on large and middle-sized cities to end isolating divisions and to establish economic development zones.

Third, the backwardness of tertiary industry and the underdevelopment of science, technology and education, are not suitable to the needs of accelerating the pace of China's economic construction. At the 12th National CPC Congress it was clearly suggested that one half of production development from now on must rely on progress in science and technology. However, China's current scientific and technological standards are only equivalent to those of developed nations of the 1950's and 1960's. Education is also quite backward--there are only 11.8 university students per 10,000 people, while that figure for the economically developed United States in 1975 exceeded 523 per 10,000; for Japan at the same time period it was 230, and West Germany, 130. The portion of production increases represented by technological innovation in Japan increased to 55.7 percent from 1953 to 1971; in the United States that figure increased from 1950 to 1973 to 54 percent, while in the Soviet Union the proportion grew to over 40 percent from 1976 to 1980. Production growth in China largely rests on a great investment of live labor. For example, in industrial departments nationwide from 1964 to 1982, the proportion of increases

in production linked to technological progress was only about 20 percent. This is quite a distance from the demands of the 12th National CPC Congress.

Fourth, due to the backwardness of tertiary industry, there are no outlets for a large section of the labor force, which does not meet the needs of our goal of expanding employment. Tertiary industry is considered a means of expanding employment opportunities for the labor force abroad, and is a "reserve" for primary and secondary industry labor. In China primary and secondary industries have been viewed as the only outlet for employment, while the great role of tertiary industry in absorbing the labor force and providing work has been ignored. This has led to backwardness for tertiary industry, leaving many jobs unfilled while there is a large proportion of the labor force waiting for work. Our natural advantage of a large labor force has not only not been fully utilized, but has become a burden for society.

Fifth, due to this same backwardness, there are not nearly enough service industries and facilities, and the daily increasing demands of the people to improve their living standards have not been met. According to information from Shanghai, in 1978 the percentage of all employees in the city performing commercial system work dropped to 8.5 percent from 1952's 13.5 percent. Although there has been more development since the 3d Plenum of the 11th CPC Central Committee--the proportion of commercial system workers in 1983 increased to 9.1 percent in 1983, with an average of five commercial networks (including independent households), per 1,000 persons--these figures are only one-fourth of what they were before liberation. In the city of Beijing, there is a daily population turnover of 600,000 with only 222,000 hotel beds available, and only 1 public bus for every 2,000 people. As a result, renting a room, taking a bus, getting a meal, washing clothes and finding nursery space are quite problematic, and are difficulties common to all large and middle-sized cities. The people's living standards will improve daily on a basis of development in production as the reform progresses more deeply. If the pace of development of fast-food services, public utilities and other tertiary industries is not accelerated, the conflicts caused by these inconveniences in daily life will intensify.

The above information shows that the state of China's tertiary industry is not compatible with the needs of the healthy development of the national economy and the overall economic reform, which seriously inhibits the swift development of production and the further improvement of the people's quality of life. Therefore, the development of tertiary industry has been determined by objective economic laws, and is not simply a matter of our subjective wishes. Developing tertiary industry greatly is a major strategic plan in China's overall economic reform, and is an extremely urgent task of the construction of modernization.

### III. Some Problems That Must Be Resolved in Order To Develop Tertiary Industry

First, a good deal of propaganda must be conducted on the important position and function of tertiary industry in the national economy. Tertiary industry must become a vital part of our work in statistical planning. For a long time, tertiary industry in China had a "poor reputation," was regarded purely as a consumer field, instead of as an industry, and was managed by social service

and charitable organizations in a rather unvigorous manner. As a result, not only did tertiary industry become backward, but as time went on, prejudices were formed against it as well. The first thing we must do to develop tertiary industry is to strengthen propaganda on the industry and its important position and function in the national economy. We must restore to tertiary industry its good "name" so that people will have a correct understanding of it. Then we must place tertiary industry in its rightful, legitimate place, and regard it as a genuine field of productive, entrepreneurial endeavor. Tertiary industry output value must be figured into the national economic accounting system so that its role in the national economy is accurately reflected. In planning, particularly in long-term planning, the laws of development, plans and guiding principles, production investment prices, and other problems relating to tertiary industry must be considered. A proportional, healthy relationship of coordinated development between tertiary industry and primary and secondary industries must be maintained under the planned guidance of the state.

Second, the scope and boundaries of tertiary industry must be rationally delineated in accordance with China's realities. Although at present there is no unified standard abroad for the definition of the scope of tertiary industry, the following departments are generally included: transport and transportation, postal and telecommunications services, commerce, food services, public utilities, finance and insurance, housing and real estate, information and communications, various specialty services, scientific research, education, medicine and health, culture and entertainment, radio and television, state organs, party and state institutions, social clubs and organizations, the military and police, etc.

There is no agreement as to which of these departments should be included within the scope of tertiary industry in China. There are three varying opinions on the subject: that we should completely copy the foreign example; that we should include "all the various service industries" but not state organs, party and government institutions, social organizations and clubs, the military and police and so on; that we should, on the basis of the second view above, also exclude science, education, medicine and health, culture and entertainment and radio and television. Our view leans basically toward the second opinion. From the theoretical point of view, state organs, the military and police are not important factors in the development of social production and do not belong in the category of production. The reason we advocate the great development of tertiary industry is to eliminate irrationality from the industrial structure in order to adapt to the changes in the structure of consumption. Our purpose is to promote production, make daily life more convenient and expand employment, and certainly not to develop unrelated industries or fields. Some people abroad regard state organs, the military and police and other departments as "secondary service departments" rather than as belonging to tertiary industry. Of course, when making international economic comparisons, we can adapt the foreign approach with appropriate adjustments.

Third, when calculating the output value of tertiary industry, GNP should be used as the overall indicator to measure economic development. As such, the following must be included: GVIAO, national income, and GNP.

What indicators should be adopted for China? We think that we should take the GNP indicator which is related to the tertiary industry and is used to compute the output value of tertiary industry as one of the major indicators to measure the level of China's economic development. Although different accounting systems and indicators should be adopted according to differences in social and economic systems, a more basic objective for their selection is compatibility with the level of development of the forces of production. In the early days after liberation, the level of development of the productive forces was quite low, and there was a great paucity of goods and materials. Adopting GVIAO as indicator was, under the historical conditions of the time, undoubtedly correct. Now that China's productive forces have developed to a great degree, as has the social division of labor, it would be definitely restrictive to continue to use, or solely use GVIAO as indicator. Therefore, the creation of new norms to take its place or supplement it should be considered.

Using GNP as an indicator needs further theoretical discussion. However, as regards practical work, it still has a positive role to play. The GNP indicator includes all the departments of the national economy, and can reflect the true social and economic state of affairs. The increases in value it shows in various departments do not include transferred value. By using it as a norm, we can avoid the duplication of the calculation of gross output value, and can accurately reflect the level of development of the productive forces. More important, by putting tertiary industry in its legitimate place, the vital role it plays in the national economy is clearly highlighted, which is beneficial to the coordinated development of the economy, society, and science and technology. Of course, the changing of indicators is not a simple matter because it involves the reform of the entire accounting system, and requires full theoretical and practical preparations. In general, given the current rather low level of development of China's productive forces, the uneven development among regions and the absence of certain conditions, both systems can be used simultaneously for the present time—that is the utilization of both GVIAO and GNP as indicators. In planning national strategies for economic development, GVIAO will still be used as an indicator, while economically developed areas and central cities can consider gradually using GNP as indicator.

Fourth is the implementation of several practical policies to develop tertiary industry.

1. Implementing the principle of the simultaneous development of the state, collective and individual. The development of tertiary industry is a new phenomenon that requires new methods. We cannot continue to restrict ourselves to the old total reliance on the state. In addition to relying on the state to take primary responsibility for scientific research, education, finance, long-distance railroads, air transport, large-scale commercial organs and other departments related to tertiary industry, due to the limitation of collective and individual economic entities, we should permit diversified economic forms and management in policy based on the characteristics of the even more numerous tertiary industry departments that are well suited to decentralized management and depend on labor and services. The state, collective and individual can all set up tertiary industries simultaneously.



commerce, food services, health care, consultation services, and staff training. As long as it is beneficial to the reality of business management, small-scale state-run retail shops and food and other services can be transformed to collectively run units or rented on contract to individuals. Industrial and mining enterprises and service facilities of official units must be gradually socialized. Peasants should be allowed to enter the cities to set up tertiary industries. We should remove obstacles in their way, create the proper conditions for them, and provide them legal protection.

2. Adjusting the irrational price policy. Overly low prices fixed for several years to several decades have been a widespread problem for China's tertiary industry. Progress in tertiary industry will be difficult to achieve if the rigid price system remains unchanged. Adjusting prices does not mean simply raising labor and service and product prices one grade and then fixing them there, but calls for the establishment of a flexible price system that is capable of adjusting itself along with changes in supply and demand. We must make them capable of relying on the labor and service and sales revenue provided by themselves in order to survive and develop. Other methods can be used to deal with the increased burden on the workers caused by price adjustments. Prices cannot be stabilized at the expense of the development of tertiary industry, or the various difficulties in the daily lives of people can never be resolved.

3. Reforming the irrational system of distribution. The rationality of the distribution system is the key to arousing the enthusiasm of the laborer. Several marked problems exist at present in the distribution system of tertiary industry, namely: low income, a rigid wage system and poor social welfare measures. It will be impossible to accelerate the development of tertiary industry without reforming the current system of distribution. We must proceed from the real situation at hand and initiate appropriate wage policies based on the different characteristics of each industry to enable the laborer to reap reasonable income that corresponds to his labor and to arouse his enthusiasm.

4. The state must provide financial and material support. Judging from the present situation, it will be difficult to make any significant breakthroughs in a short period of time relying solely on the tertiary industry's own accumulation. The state must provide support in a number of ways. Taxes can be lowered somewhat, and for some newly created industries, they can be waived for a few years. Preferential treatment can be given in the granting of loans. Permission can be given to import some necessary equipment, and the state must give thought to problems related to production investment.

5. Improving basic facilities. The backwardness of basic urban facilities is an obstacle hindering the development of tertiary industry. Flexible measures have to be taken, and a variety of different channels must be used to accumulate funds and construct trade, financial and information office buildings and build a solid foundation for the development of tertiary industry as a whole.

6. Tackling personnel training. A key to the development of tertiary industry is whether or not it can be supplied with a large number of specialized

personnel. Due to our past neglect of this problem, the present situation cannot meet out our demands. Therefore we must use a variety of methods to greatly develop specialized schools for tertiary industry, establish bases for training and cultivating personnel in order to ensure the personnel needs of tertiary industry and its development.

The above are real problems we have encountered in the development of tertiary industry. It is our belief that as long as we adopt flexible policies and measures, China's tertiary industry will quickly take on a new look.

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INDUSTRY

YANG BO PROMISES INCREASED INVESTMENT IN LIGHT INDUSTRY

HK100436 Beijing CHINA DAILY in English 10 Mar 86 p 1

[Article by staff reporter Zhu Ling]

[Text] The state is increasing its investment in capital construction and technical renovation of light industry this year, according to Yang Bo, minister of light industry.

Investment in capital construction this year will be as high as 814 million yuan (\$254 million) or 14 percent more than in 1985, he said.

Spending on technical updating this year will reach 1.7 billion yuan (\$531 million), which is 430 million yuan (\$134 million) more than in 1985.

The minister said that investment is being increased at time when the country is short of funds.

Yang said light industry this year will concentrate on technical renovation of production of clothing, beer, canned food, glassware, paper, leather, and soft drinks. He said that the emphasis on light industry is intended to guarantee the basic needs of the Chinese people and to further improve their daily lives.

Last year, incomes of both rural and urban people rose, he noted, owing to the rise of employment, pay hikes in state-run and collectively-owned enterprises, and the increased sales of rural products.

Altogether, the increase was estimated at more than 77 billion yuan (\$24 billion). The people's income will continue to grow, he said, causing a new wave of demand for consumer goods.

Yang noted that people now especially want nutritious, varied and quickly-prepared food, fashionable and comfortable clothing, and high-quality commodities that are durable and decorative.

This year, the Ministry of Light Industry has set a goal of an 8 percent increase in production. The total output value will reach 168.5 billion yuan (\$52 billion), the minister said, adding: "We will try to do even better, increasing production by more than 10 percent."

Although pushing for more production to meet market demand, Yang Bo called on the whole light industry to put quality first. "We have quality problems since some enterprises are only speed-conscious," he said. He pointed out some problems, mainly involving canned food, refrigerators and soft drinks.

"Ours is a socialist country and we must be fully responsible to our customers," Yang stressed. "Although our light industrial production lags behind the people's rising living standards, expectations, and spending power, we must never strive for quantity at the expense of quality."

He called for strictly carrying out the state's "Five Prohibitions" set by the State Economic Commission.

The minister said that all light industrial products entered into competition for state quality prizes must be produced according to internationally-recognized standards.

He also declared that quality control must be closely linked with bonuses of workers. A quality index must be set for every worker. Those who fail to meet quality quotas must not receive bonuses.

The minister emphasized the necessity for after-sale services, saying all light industrial enterprises must be totally responsible for repair, replacement and reimbursement if their products are not up to standard.

Another top priority for the country's light industry is to revitalize its stagnant exports, Yang Bo said, adding: "There should be visible progress this year."

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CSO: 4020/246

## INDUSTRY

### LIGHT INDUSTRY ADVANCES IN NEI MONGGOL

Hohhot NEIMENGGUO RIBAO in Chinese 21 Oct 85 p 2

[Article: "Nei Monggol's Second Light Industry Flourishing"]

[Text] During the past 30 years, Nei Monggol's second light industry has gone from being small to large and from being weak to strong. It has developed into a second light industry system that is taking shape with many branches, and has become an important component of Nei Monggol's national economy.

On the eve of liberation, Nei Monggol had a backward light industry with only a few scattered handicraft factories and small workshops. According to statistics, in 1948 the entire autonomous region only had 13,800 individual handicraft households, slightly over 24,800 people working in these handicraft households, and an output value of just a little over 20 million yuan. Most of these individual households were engaged in the natural trades of ironware, wooden articles, bronze, brass, or copper ware, sheet iron and tin plates, and feltmaking. The main products of these households included hoes, bridle bits, plows, harrows, yokes, shooting targets, hitching posts, and milk barrels. The scope of its production was small and scattered, it had simple handicrafts, simple technology, and products were of a single variety which fell far short of satisfying the needs of our autonomous regions various nationalities.

Since the founding of our People's Republic and under the radiant light of the party's policies, all levels of government have adopted active policies in support of the handicraft industry that led the individual handicraftsmen along the prosperous path of collectivization. During the last 30 odd years, although our region has suffered from "leftist" disruption and sabotage that caused hardships, still, we vigorously progressed with tremendous vitality. At the present time, the second light industry encompasses plastic goods, leather, hardware, electrical appliances for home use, lamps and lanterns, weighing apparatus, furniture, sewing, and industrial art; also articles for culture, education, and sports; products from wood, bamboo, cane, palm, straw, and willow; daily-use articles; and light machinery. There are great numbers and a vast variety of products. According to statistics, as of the end of last year, throughout the autonomous region the second light industry system had a total of 1,529 enterprises with nearly 140,000 people employed by these enterprises and a gross output value of 762 million yuan, which is a 2-fold increase in comparison to the year 1949 and accounted for 9.3 percent of the GNP for the entire autonomous region.



In addition to a big change occurring in the traditional trades of leather, furs, and hardware products this year, the new and developing industries of home appliances and packaging are starting to grow. Since 1979, there has been serial manufacture of over 1,400 new products with more than 3,600 varieties, with 58 of these products having been judged to have outstanding quality by the autonomous region and 12 products having been judged to have outstanding quality by the Ministry of Light Industry. The Chifeng Rug Factory's Changcheng type 90 high-quality wool rug and the Yimengnalin Rug Factory's Tiantan Antique model handcrafted rug were selected as products with outstanding quality by the state and were awarded silver awards. The Chifeng Rug Factory produces Changcheng art tapestries which are of fine wool, are a bright red, have exquisite detail, are simple and tasteful, and are very magnificent. These rugs are exported to more than 10 countries, their high quality has been praised by Premier Zhou and given to friendly countries as treasures of China. Due to the steadily rising quality of Nei Monggol's second light industry products, we now have rugs, padlocks, clothing, cloth shoes, zippers, leather goods, fur and skin products, woven straw articles, and scores of other arts and crafts on the international market and they account for nearly 20 percent of the autonomous region's total gross value of exports.

In the last few years Nei Monggol has imported advanced technology and equipment from within China and abroad, there has been a marked rise in the level of its technical installations. This has freed the workers from heavy manual labor with the majority now having realized mechanized or semi-mechanized production and as a result receiving increased benefits. The long history of leathermaking has now changed through the achievement of mechanization, the many manual operations in the process of shoe manufacturing now being done by mechanized or automatic means. The tanning craft has adopted new technology to change the dirty, smelly, and tiring old process in order to open up new areas for leather products. With the import of advanced foreign technology and equipment, the plastic industry has emerged as a force. The Hohhot Juzhidalishi Factory imported equipment from West Germany, and after more than a year of development and working through difficulties has developed first-rate domestic products.

In recent years, the special products of Nei Monggol's minority nationalities have flourished, are becoming more prosperous day by day, and have become an important part of Nei Monggol's second light industry. Now, some specialized households have changed to producing special minority nationality products in 131 factories that employ over 10,000 people, have a yearly output value of over 30 million yuan, and account for 5.4 percent of the second light industry's gross output value. These factories are taking shape and emerging in Hohhot, Hailar, Duolun, and Xilinhot producing products such as Mongolian knives and boots, saddle accessories, yurts, milk barrels, sheep shears, pots and bowls, and rugs in a wide variety that meet the needs of the masses in the rural and grazing areas. These products are also selling outside the autonomous region.

The characteristics of Nei Monggol's second light industry are that it is many grassroots units and a vast number of counties, its management is flexible, it shows fast results with little investment, and has a large labor force. It is an important force in Nei Monggol's economy that cannot be ignored. It is an industry that has very good development prospects.

## INDUSTRY

### LIAONING'S HEAVY INDUSTRY LEADS NATION

Beijing BAN YUE TAN [SEMI-MONTHLY TALKS] in Chinese No 23, 10 Dec 85 pp 32-33

[Article by XINHUA News Agency, Liaoning Bureau: "The Heavy Industry Base That Lives Up to Its Reputation--Liaoning in National Perspective"]

[Excerpt] 1. Liaoning has been the leading heavy industry base since the establishment of the PRC. In 1984, the value of industrial output in Liaoning was 81.9 percent of the combined value of industrial and agricultural output. This is the largest proportion in any province and autonomous region. In 1984, the value of heavy industrial output in Liaoning was 37.43 billion yuan, which was 10.5 percent of the total value of heavy industrial output in China. It occupied first place in China.

2. Liaoning has excellent material and technical resources. At the end of 1984, Liaoning industrial enterprises had fixed assets of 56.57 billion yuan. On average, each production worker had equipment worth 11,856 yuan, the highest average of any province, municipality, or autonomous region.

3. Liaoning's proven iron ore reserves are 10.4 billion tons. In 1984, iron ore production was 25.1 percent of China's total iron ore production and Liaoning was the leading producer in China.

4. Liaoning has rich reserves of nonmetal ores. Liaoning has the largest reserves in China of diamonds, magnesite, borax, and bentonite. The magnesite reserves are more than 80 percent of China's total reserves and also are the largest reserves in the world.

5. There are 3,536 km of railroad tracks within Liaoning's borders. Calculated in terms of population, on average there is 1 km of track for every 10,000 people. Calculated in terms of land area, there are 243 km of track for every 10,000 square km. This is 3.6-fold higher than the national average, and is the highest ratio of any province or autonomous region.

6. In 1984, the population of cities and towns in Liaoning was 20.01 million people, which was 54.7 percent of the province's total population and the highest proportion in China.

7. In 1984, the number of workers and staff members was 9,017,000, the highest number in any province, municipality, or autonomous region.

8. Liaoning is an important base in China's metallurgical industry. It has four large steel enterprises: The Anshan Iron and Steel Co., the Benxi Iron and Steel Co., the Fushan Steel Mill, and Dalian Steel Mill. In 1984, Liaoning produced 9,686,000 tons of steel, which was 22.5 percent of total national production and was the largest total in China.

9. In 1984, production of pig iron in Liaoning broke beyond the 10-million-ton mark for the second time and reached 10,035,000 tons. This was 25.1 percent of total national production of pig iron and was the largest total in China.

10. Production of finished steel products in Liaoning leads the nation. In 1984, Liaoning produced 6,663,000 tons of such products, which was 19.8 percent of total national production.

11. The Anshan Iron and Steel Co. is China's largest combined iron and steel works. It has 56 plants and mines, including large-scale iron mines, sintering plants, ironworks, steel mills, and steel rolling mills. It has 220,000 workers and staff members. In 1984, it produced 7 million tons of steel and 4.31 million tons of finished steel products. Both totals were the largest in China.

12. Since establishment of the PRC, Liaoning has built, reconstructed, or expanded seven large 250,000 kW-installed-capacity power plants, as well as medium- and small-scale power stations. Liaoning has the largest power generation capacity in China. In 1984, Liaoning produced 32.39 billion kWh, the largest total in China.

13. Liaoning's Qinghe Power Plant, with 1.5 million kW installed capacity, currently is China's largest thermal power plant.

14. In 1984, the Fuxinbaichao Special Coal Mine produced 5.26 million tons of coal, the largest total of any coking coal mine in China.

15. In 1984, Liaoning produced 10,000 autos, which was 14.2 percent of total national production and was the largest in China.

16. The Wafangdian Bearing Factory is China's largest producer of medium-duty bearings. In 1984, the factory led the nation's bearing factories in seven of 11 comparative measures, including bearing volume, output value, and variety of product.

17. The Dalian Shipyard is the only shipyard in China that can take orders for 100,000-ton vessels.

18. In 1984, the Hongwan Electric Cable Factory led all similar factories in China as measured by six economic and technical indicators: output value, quality, cable conductivity, turnover of funds, total output volume, and fulfillment of international standards.

19. The Liaoyang Petroleum and Chemical Fibers Co. currently is China's largest comprehensive petroleum and chemical fibers enterprise. Its main

products are polyethylene and polypropylene, which are the raw materials for plastic, polyester pellets, which are the raw materials for polyester fibers, nylon 66 yan [7770], which is the raw material for polyamide fiber, and short polyester fibers and long polyamide fibers.

20. In 1984, Liaoning produced 704,000 tons of soda ash, which was 37.4 percent of total national production and the largest amount in China.

21. In 1984, Liaoning's paper industry produced products worth a total of 790 million yuan. Machine-made paper and cardboard production was 6.39 million tons, the largest amount in China.

22. In 1984, 850,000 household washing machines were produced, which was 14.7 percent of total national production and one of the largest amounts in any province.

23. In 1984, the total value of foreign exports was \$4.99 billion, which was 20.4 percent of the national total and the largest amount in China.

12994/13045

CSO: 4006/570

INDUSTRY

TWO CHINESE MINICARS EXHIBIT EXCELLENT QUALITY

Harbin HEILONGJIANG RIBAO in Chinese 18 Oct 85 p 1

[Article by Li Dexi [2621 1779 1585]: "Two Minicar Models Attain the Performance Level of Japanese Cars of the Same Type"]

[Text] Two models of Chinese minicars using engines built in this country have attained a performance level equal to automobiles of the same type built by Japan at Lingmu.

This was the unanimous view expressed by the National Product Design Appraisal Conference that concluded today at Harbin.

Experts from various areas believe that the Harbin Aircraft Manufacturing Co., the Changhe Machine Building Plant of Jiangxi, and the Harbin Engine Building Plant subordinate to the Ministry of Aeronautics that built these two car models and their engines, are far ahead of others in China in their ability to produce spare parts. According to statistics, more than 85 percent of the parts for these cars are built in China.

These two models are quiet, emit little pollution, have good brakes, and low fuel consumption. Their fuel consumption is lower than Japanese cars of the same type.

The Harbin Aircraft Manufacturing Co.'s No 3 Enterprise started importing technology from the Lingmu Co. in the spring of 1984, the company integrated this technology with the actual conditions of China to develop these two car models and to carry out joint trial-production of them. As of now, there have been 7,000 engines built and 4,500 vehicles completed. These products are selling throughout China and are being well received by consumers.

Participating in this product appraisal conference of 4 days were leaders from the State Planning Commission, the State Economic Commission, the State Science and Technology Commission, the China National Automobile Industry Corp., the Ministry of Aeronautics, the Ministry of Public Security, the Ministry of Communications, the province and the city of Harbin. Also present were experts and professors from concerned universities and colleges and various units of scientific research departments.

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CSO: 4006/270



INDUSTRY

CHINA PRODUCES MORE BUILDING MATERIALS

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 5 Dec 85 p 1

[Article by Xiao Tihuan [5618 7555 3562]: "China's Building Materials Industry Flourishes"]

[Text] Lateral contacts have promoted the development of the building materials industry and the policy of "everybody attending to building materials" has initially showed vitality. Since this year the State Building Materials Bureau, in close coordination with fraternal departments, has made it possible for the building materials industry to flourish as never before. It is estimated that this year's output value of the building materials industry will reach 34 billion yuan and 60 percent of this figure will be contributed by fraternal departments and localities. This rapid growth also has been apparent in the output and variety of major building products among fraternal departments and bureaus as well as various localities.

The building materials industry is an industry that demands a tremendous volume of supply and deals with a wide range of variety. Since early this year the State Building Materials Industry Bureau has put forward a guiding principle of "everybody attending to building materials." The response from many departments and trades in various areas has been prompt and encouraging. According to preliminary statistics, the state has budgeted 700 million yuan this year for the development of the building materials industry. In addition, another 700 million yuan have been invested by localities while a further 700 million yuan have come from prefectures and counties. Adding the figures contributed by state departments and bureaus, the total investment is expected to reach 3 billion yuan.

In order to further strengthen lateral contacts and close cooperation with related trades and professions, the State Building Materials Industry Bureau on 3 December took the lead in asking over 30 departments to attend a forum for the purpose of exchanging experiences on "everybody attending to building materials." Responsible personnel of relevant departments exchanged views on problems of common concern and discussed means to solve those problems.

12661/9716  
CSO: 4006/513

INDUSTRY

CHINA OVERFULFILLS CEMENT PRODUCTION QUOTA

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 9 Dec 85 p 3

[Article by Xiao Tihuan [5618 7555 3562]: "Cement Production Overfulfills Quota Set by Annual Plan"]

[Text] It is heartening news that by the end of November, the gross output of cement, one of China's three major building materials, had reached 130 million tons, overfulfilling the 125 million-ton target set by the annual plan ahead of schedule and attaining the level of the world's leading cement producers.

Beginning this year cement production has consistently maintained a sustained and steady growth, without any additional investment by the state. The main reason for this is that the guiding principle of "everybody attending to building materials" has brought into play the enthusiasm of relevant departments in tapping potential, increasing cement production, and satisfying social needs. Old enterprises by and large have speeded up technical transformation by converting over 450 upright brick kilns into mechanized cylindrical ones. A group of large and medium-sized enterprises including those built with imported equipment and technology and those with domestic equipment during the Sixth 5-Year Plan period have successively begun production to boost cement output. Important contributions also have been made by township and town enterprises in various areas in an effort to develop cement production and ease the rising demand for more supplies. According to statistics, over 2,000 cement plants currently are operated by township and town enterprises, with their total productivity reaching over 18 million tons.

As to cement quality, all large and medium-sized enterprises throughout the country continue to maintain their previous peak levels. Quality of the cement produced by local enterprises has been improved and the rate at which the majority of the products produced by key plants with mechanized cylindrical kilns pass quality inspections has reached one hundred percent. At present, trades handling building materials are directing their efforts toward bringing about better results. It is estimated that the annual cement output may reach well over 140 million tons.

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## INDUSTRY

### ORDNANCE INDUSTRY PRODUCING CIVILIAN GOODS IN NORTHERN CHINA

Hohhot NEIMENGGU RIBAO in Chinese 12 Oct 85 p 2

[Article by He Jisheng [0149 4949 3932] and Liu Shaohua [0491 1412 5478]:  
"Bumper Harvest Season; a Bold Review; Ministry of Ordnance Industry in  
Northern China Holds Meeting for Placement of Orders"]

[Text] For the first time, the Ministry of Ordnance Industry in northern China will hold a exhibition in Hohhot for the purpose of placing orders for civilian goods for the year 1986. This grand meeting has added color to the late autumn of the city.

Reporters were extremely interested in this meeting. They interviewed several managers from the company in northern China of the Ministry of Ordnance Industry's Corporation for Developing Sales of Civilian Goods, and were first to get a preview of the meeting.

The exhibition hall had a superb collection of beautiful exhibits that exceeded our expectations, it was filled with various household articles and large items for use in production. There was a great variety and quantity exhibits. In order to satisfy the needs of Nei Monggol's various nationalities, all types of home-use machinery and electrical equipment were added to this exhibition, such as various models of Jialing [0857 7117], Honda, and Yamaha motorcycles and some refrigerators, washing machines, bicycles, and sewing machines that sell well in China. There were so many things that a person could not see them all. Manager Peng, of the company located in northern China, told us that since 1980 the Ministry of Ordnance Industry has complied with the Central Military Commission's policy of "maintaining ordnance production while shifting to production of civilian goods." Its subordinate enterprises have given full play to the ordnance industry's technical ability and its superior equipment in making a major effort to develop the production of civilian goods. In the last few years, a production capability of over 1,000 products in 13 different categories has evolved, and assembly-line production has begun for vehicles, motorcycles, and cameras that now hold a leading position at home and abroad. At this order-placement exhibition, the sponsoring unit will provide 60 million yuan of merchandise for northern China and Nei Monggol. This will show the war industry's technical strength and prospects for the war industry shifting to production of civilian goods.

The reporters viewed the Baiyun brand refrigerator with great interest. This refrigerator's outward appearance and color are coordinated and attractive, its interior work is of good quality, and can freeze water into ice within 10 minutes. Based on expert appraisal, the Baiyun Refrigerator compares favorably to Japanese models. In the middle of the hall there were various models of bicycles, which we thought were produced by a specialized factory but after a close look we saw that they were Lingyang models produced by Nei Monggol's No 2 Machinery Plant. If the trade mark was not shown, everyone would think that they were famous brand bicycles. Nei Monggol's First and Second Machinery Plants, lacking sufficient war production to keep busy, have vigorously developed production of goods for civilian use. They developed new products based on market surveys and what they learned from economic news, they successively produced trucks with 36-ton carrying capacity, hydraulic lifts, oil-drilling rods, bicycles, coal gas tanks, steel poles, electric meters, and window bars. Each year they produce over 1 million meters and over 40,000 bicycles, and thereby contribute to making the autonomous region's economy prosper.

This grand exhibit is a review of the great success the ordnance industry has made in shifting to civilian goods. The various products came from 187 organizations throughout China. Like colorful flowers blossoming in a garden, over 200 organizations were drawn to the exhibit to place orders. One comrade from a certain county in Shanxi rushed to the exhibit for fear he would lose the chance to place an order. The man said they did not receive a notice about the exhibit and after hearing news of it traveled night and day north of the Great Wall to Qingcheng to attend the exhibit.

This first Ministry of Ordnance Industry's order-placement exhibit held in northern China at Hohhot shows the concern the party, state, and inner-government has for Nei Monggol's economic cause. It is truly a case of "the rain knowing the season comes in spring." We offer our gratitude to the leaders and workers of this exhibit and wish them complete success.

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CSO: 4006/270

INDUSTRY

SILK INDUSTRY SEEKS FURTHER GROWTH

OW071308 Beijing XINHUA in English 1114 GMT 7 Mar 86

[Text] Beijing, 7 Mar (XINHUA)--China's centuries-old silk industry is seeking further growth with the help of modern technology and advanced management.

A total output value of 7.55 billion yuan is planned this year, a 3.4 percent growth over last year, and the average annual rate of growth through to 1990 is expected to be 4 percent, according to sources at the China National Silk Corporation.

To achieve this target, the technical transformation of 440 enterprises and plants will take place in the next 5 years, with the priorities on product variety and energy reduction.

Meanwhile, efforts will be taken to make a thorough study of imported advanced technology and equipment, especially in the printing and dyeing processes.

In a bid to guarantee quality material, branches under the corporation this year are to issue certificates to silkworm-breeding units after examinations.

As the biggest silk producer in the world, China last year turned out 42,000 tons of silk, more than half of the world's total output. The country's silk trade volume makes up 90 percent of the international silk trade total.

A national silk association was set up early this year to further strengthen trade relations in the material with the outside world.

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CSO: 4020/246



## INDUSTRY

### COUNTRY EXPERIENCES BOOM IN ARTS, CRAFTS SALES

OW100826 Beijing XINHUA in English 0710 GMT 10 Mar 86

[Text] Beijing, 10 Mar (XINHUA)--A big boom in the arts and crafts industry is expected for the next 5 years, according to the China Arts and Crafts Corporation.

"We plan to bring the output value of the industry to 9 billion yuan by the year 1990," Qi Zheng, general manager of the corporation, said here today.

Efforts will be focused on carpets, drawnwork, toys, metal crafts, lacquerware and fireworks.

Most of China's arts and crafts used to be produced for the international market. But with improved living standards, the domestic demand is also rising, the general manager said.

He told the current meeting of managers of the nation's arts and crafts companies that the total output value of the industry was 6.1 billion yuan in 1985. Of this, 3.35 billion yuan worth of products were sold in the domestic market and export earnings were U.S.\$1.25 billion.

There are more than 3,400 arts and crafts factories in China, producing more than 10,000 varieties of handicrafts.

The general manager said that during the sixth 5-year plan period (1981-1985), the industry grew at an annual rate of 8.2 percent and domestic sales grew at an annual rate of 27.4 percent.

The demand for gold jewelry has kept growing. Last year, the country produced 2.4 billion yuan worth of gold jewelry for the domestic market, which went a long way to help stabilize the market and withdraw currencies in circulation, the general manager said. The supply of gold jewelry, high-ticket [as received] toys, interior decorations, embroidered fashion shirts and artistic lamps falls far short of demand, he said.

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CSO: 4020/246

INDUSTRY

BRIEFS

PAPER INDUSTRY PRODUCTION--Beijing, 6 Mar (XINHUA)--Publishers of China's more than 3,500 newspapers and magazines will no longer have to contend with paper shortages in 3 to 5 years, a leading government planner said today. According to plans of the Light Industry Ministry for the period ending in 1990, total paper output will increase 2 million tons to more than 10.5 million. At the same time, newsprint production is expected to grow 50 percent to 600,000 tons and printing paper from 900,000 to 1.3 million tons by 1990. Chen Siliang, deputy director of the Paper Bureau under the Ministry of Light Industry, told XINHUA today that to meet these goals, paper pulp mills will be built in the country's southern regions with abundant timber and bamboo resources. The ministry will also build several large and medium-sized paper mills and modernize its current factories, Chen said. Over the last 5 years, paper production has failed to keep up with increasing demand as more than 1,000 new newspapers and magazines began publishing. [Text] [Beijing XINHUA in English 1649 GMT 6 Mar 86] /9604

BEIJING'S FACTORIES' RURAL BRANCHES--Beijing, 13 Mar (XINHUA)--Beijing now has over 300 factories jointly run by the urban managers and the local peasants, who share the investment, profits and risks. These factories in Beijing suburbs produced 140 million yuan of industrial output last year. They have advanced equipment, large production scales, adequate raw materials and brisk sales. Over 21,000 local peasants now work for these enterprises. Products include machinery, garments, family electrical appliances, chemicals and building materials. Many urban factories select production partners in the suburban counties where there is a surplus of labor and space for workshops. Urban technicians and skilled workers go to the rural factories to improve the quality of products. Urban garment factories attached to the first municipal commerce bureau are mainly scattered around Wangfujing and other busy shopping centers. Production was limited by a shortage of working space. To overcome the problem, the commerce bureau installed imported production lines in 17 branch factories set up jointly with rural counties and districts, and sent 140 urban workers to guide production. The branch of the Red Leaf Garment Factory in Taishitun Township of Miyun County produced 100,000 articles of clothing in 1 year and earned 2.6 million yuan in profits. [Text] [Beijing XINHUA in English 0740 GMT 13 Mar 86] /9604

SHIPBREAKING INDUSTRY--Beijing, 11 Mar (XINHUA)--China dismantled a total of 268 ships over the past 3 years, recovering 1.9 million tons of rolled steel and scrap, according to today's PEOPLE'S DAILY. The country started the industry in 1983 to cope with the short supply of rolled steel and scrap in the domestic market. Steel from dismantled ships can save one-third of the hard currency needed to buy steel by direct import. To improve management over the rising industry, China established a ship-breaking corporation on 1 January 1985 and implemented the contract system in 119 plants. As a result, the weight of dismantled ships doubled in 1985 over 1984. The corporation used most of its profits for technical renovation and developing advanced techniques. Over the past year, most of the plants have added environmental protection facilities, such as water treatment plants. [Text] [Beijing XINHUA in English 0744 CMT 11 Mar 86] /9604

IMPROVED PORCELAIN PRODUCT QUALITY--Beijing, 11 Mar (XINHUA)--China is to allocate 500 million yuan and U.S.\$50 million to improve the quality of its porcelain products. According to sources at the Light Industry Ministry, the special fund will be used to build five modern porcelain plants and corresponding raw material bases in Jingdezhen, a city in southern China famous for its porcelain, and four other regions. Experts say that China's porcelain, which enjoyed world renown as early as 1,000 years ago, is ill-equipped to turn out large quantities of common utensils required by tourist hotels and other high-class establishments, although craftsmen can still produce superb artworks. Also, porcelain products required for domestic use are too fragile, housewives say. These problems have even adversely affected China's porcelain exports. According to statistics, China, with over 3,000 porcelain makers, stands as the biggest porcelain exporter in the world in terms of quantity, but it is listed as the sixth or seventh in terms of revenue from exports. Last year, the country sold about 500 million pieces of porcelain on international markets, but earned only U.S.\$109 million, behind Britain, Japan, the Federal Republic of Germany, Italy and other countries. However, officials in charge of porcelain production remain confident. Citing the abundant resources of porcelain clay, the excellent traditional craftsmanship and complete system from scientific research to production, they said Chinese porcelain production will be remarkably improved both in quantity and quality when modern equipment is introduced. [Text] [Beijing XINHUA in English 1532 GMT 11 Mar 86] /9604

STEELWORKS PROFITS INCREASE--The Baotou Steelworks exceeded this year's state profit plan of 125 million yuan 3 months ahead of schedule with profits of over 126 million yuan. Since this year, the party organizations at all levels of the Baotou Steelworks have consolidated the achievements of party rectification, conducted thorough education in ideals and discipline for vast numbers of staff and workers, and continually guided the reform in depth. Since the first of the year, the Baiyun Iron Mine has practiced the responsibility system of wages based on tons of mine ore, thus causing the mine's monthly ore production to break the all-time record. The mill started turning deficits into profits last year, and this year fulfilled its yearly profit plan within the first 5 months. In August the mill also set the record for highest monthly steel output. During September the Baotou Steelwork's Chuzha Mill and other main mills and mines carried out a major overhaul of their equipment which to some extent affected production. The company adopted vigorous measures so at

the same time they maintained balanced production they could also speed up the pace of equipment overhaul, enabling all the major mills and mines to fulfill all but two of their monthly production goals. In the first 9 months of this year, the Paotow Steelwork's had fulfilled 89.2 percent of the goal for its gross industrial output value set by the state for the entire year, its steel and iron output being 1.15 million tons and 1.29 million tons, respectively. [Text] [Hohhot NEIMENGGU RIBAO in Chinese 18 Oct 85 p 1] 12704/13045

IRON PRODUCTION--The Shanghai Baogang No 1 Blast Furnace, known as "the king of blast furnaces," as of noon today had produced 130,000 tons of iron in its first month of operation. This exceeded its planned production by more than 10 percent, with its product quality reaching the high-quality level. The No 1 Blast Furnace officially went into test production on 15 September and steadily raised its daily production level. During the last half of September its daily iron production averaged 3,700 tons, during the first half of October it rose to 4,700 tons, and has now reached a level of 5,000 tons per day. This signifies that this "iron and steel giant" is in the process of quickly approaching its designed goal of being a 10,000-ton-class furnace by already passing the halfway mark. The Baogang Ironworks, with the No 1 Blast Furnace as its heart, has over 3,900 pieces of imported equipment. The operators carried out operations in precise accordance with technical regulations to ensure full play was given to the technology and performance of the imported equipment. In the last month, the blast furnace's four large tap holes were tapped 170 times without any accidents that stopped or decreased production. [Text] [Changchun JILIN RIBAO in Chinese 17 Oct 85 p 1] 12704/13068

CSO: 4006/270

ACHIEVEMENTS OF HUNAN TOWNSHIP, TOWN ENTERPRISES DISCUSSED

Changsha HUNAN RIBAO in Chinese 1 Jan 86 p 1

[Article by Peng Fugui [1756 0126 2710] and Mo Xiyan [5459 6007 1484]: "Gross Output Value of Hunan's Township and Town Enterprises in 1985 Amounts to 9.5 Billion Yuan; Hunan's Township and Town Enterprises Continue To Raise Output and Quality During Sixth 5-Year Plan Period With 110 Products Making Way into World Market"]

[Text] A new situation of vigorous development of Hunan's township and town enterprises came into being in 1985. Gross output value rose from 6.4 billion yuan in the preceding year to 9.5 billion yuan, an increase of 49 percent. Throughout Hunan, there were 38 counties whose township and town enterprises' output value exceeded 100 million yuan, of which Liling City and Changsha and Shaodong counties were expected to exceed 300 million yuan.

In spite of an early start, the development of Hunan's township and town enterprises is slow. At the inception of the Sixth 5-Year Plan period, the leadership at all levels emancipated its mind, relaxed policies, encouraged individual peasants and joint households to run enterprises, and organized the collective, the joint households, and individuals to pitch in; it supported township and town enterprises in breaking down the bounds of administrative divisions, going into joint operations with other places and provinces, and importing funds, technology, equipment, and qualified personnel; it had, at the same time, made preferential provisions in tax payment for profit and supply of raw materials to help develop the township and town enterprises. This had brought about rapid development of Hunan's township and town enterprises.

The recent 5 years marked the years of fastest development of Hunan's township and town enterprises. By the end of 1985, the number of township and town enterprises throughout Hunan had increased to more than 240,000, nearly tripling that in 1980. Some of the major industrial products of the township and town enterprises held decisive positions in relation to the total output in the province, of which raw coal and manganese ores accounted for more than 40 and 50 percent, respectively. Product quality also improved markedly: there were 5 fine-quality products of national standing, 110 fine-quality products cited by the province and the ministry and more than



200 fine-quality products of provincial standing in 5 years, of which the number of products that had made their way into the world market jumped from 21 kinds 5 years ago to 110 kinds, marketed in more than 20 countries and regions. The volume of export rose from more than 2 million yuan to more than 300 million yuan. Township and town enterprises developed even faster in 1985, with gross output value in the whole year showing a three-fold increase over 1980.

The vigorous township and town enterprises have found an effective way for Hunan to place the surplus labor force in the countryside, develop market towns, accelerate the pace of making the countryside rich, and increase financial revenue.

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CSO: 4006/762

SMALL-SCALE ENTERPRISES

CONTRACTED MANAGEMENT FOR TOWNSHIP, TOWN ENTERPRISES DISCUSSED

Beijing NONGGUN GONGZUO TONGXUN [RURAL WORK NEWSLETTER] in Chinese No 12,  
5 Dec 85 pp 16-17

[Article by Zong Jinyao [1350 6930 5069] and Cao Guangming [2580 1639 2494] of the Township, and Town Enterprises Bureau of the Ministry of Agriculture, Animal Husbandry and Fishery: "Further Perfect the System of Contracted Responsibility for Management of Township and Town Enterprises"]

[Text] The system of contracted responsibility for management has been widely implemented among township and town enterprises throughout China for more than 3 years. In the course of its implementation, some problems demanding prompt solution still exist in various localities. They are:

1. Two extremes exist on the part of the contracting parties regarding the management of the contracted enterprises: they are either overly controlled or not controlled at all. In dealing with the enterprises they have contracted out, some localities still do not delegate power fully and interfere with the enterprises excessively as they did in the past, the contractors do not have much decisionmaking power; on the other hand, some localities have looked upon a contract purely as a means to ensure that the enterprises will deliver their profits. They only care about profit retention but not enterprise operations and management, which are being replaced by a contract.
2. The form of the contract is much too simple. Many places have signed simple contracts with individual factory directors and managers (or partners) and adopted the profit-contract system of distribution involving full reward and full compensation. According to an investigation in a certain prefecture in Hunan Province, 74.5 percent of the enterprises adopted the system of contracted responsibility with individual factory directors and managers (or partners) and 70.7 percent implemented the profit-contract system of distribution involving full reward and full compensation, thereby turning some contracted enterprises into private ones.
3. The contents of the contracts are too concise, with contracted targets set either too high or too low. In some localities, only the targets for profit delivery are stipulated, without imposing demands and restrictions in other areas; in addition, the contracted targets so set are devoid of scientific and rational estimates. As a result, a contractor will take away the money when profit is made and skip town when a loss is incurred that he cannot pay.

4. The relationship between accumulation and distribution is not handled properly, resulting in a phenomenon that can be characterized as "contention at both ends with a void in the middle, in other words, while more townships and villages deliver profits and the contractors and workers and staff members are sharing more, there is little accumulation for the enterprises" and "Buddhist monks in a poor temple are richer." This has led to shortages in funds on the part of enterprises and their inability to expand reproduction.

To improve the system of contracted responsibility for management of the township and town enterprises and consolidate and develop the rural cooperative economy, we are of the opinion that the following work should be strengthened in dealing with the contracted enterprises:

1. Strengthening Leadership and Raising Understanding of the System of Contracted Responsibility for Management of Township and Town Enterprises in a Down-to-Earth Way: Under the system of contracted responsibility for management of township and town enterprises, the contracting party of an enterprise will turn the enterprise over to a collective or an individual for contracted management based on certain conditions; the contractor, on the other hand, will exercise the power granted by the contracting party on the precondition that he will not change the nature of the enterprise's ownership or its subordinate relationship. Within an enterprise, the contractor or his representative is the administrative leader of the enterprise who also represents the interests of all its workers and staff members and at the same maintains a comradely relationship with them on an equal footing; holding himself accountable to the contracting party, a contractor underwrites principally the enterprise's economic responsibility and also represents the contracted enterprise. For this reason, the contracting party of a township and town enterprise should neither give up control of a contracted enterprise totally nor control it too rigidly. It must correctly handle the relationship between reinvigorating it through delegation of power and strengthening its management.

2. Carefully Selecting the Right Factory Director and Manager for a Contracted Enterprise and Rationally deciding Contract Targets: In selecting a factory director and manager for a contracted enterprise, we should look into two things: a) The requirements: we should select those comrades who are capable of enforcing state policies and laws, who are devoted to their work and have the mind to do pioneering work for the collective, who have certain general and technical knowledge and the ability to manage, organize and lead, who are honest and upright in their own ways and evenhanded and who enjoyed the support of workers and staff members. b) The methods: we must insist on election by workers and staff members, combining recommendation by the masses with investigation by the organizations, and linking contracts through public bidding and recruitment by means of public announcement with appraisal by the masses through discussion so that comrades meeting the above-mentioned requirements can be elected.

Contract targets include the output, output value, and profits to be fulfilled, the fixed-asset depreciation fund to be drawn from, major overhaul fund, the

public welfare fund, education fund, enterprise fund, and so forth; the amount of profit to be delivered and the ratio of delivery, management expenses, and so forth; guaranteed investment for intellectual development, capital construction, and the percentage and extent of equipment that is in good condition. The contract targets so defined must be absolutely reliable and based on an enterprise's productive capability, the actual conditions over the years, the enterprise's potential for development, market forecasts, the enterprise's technological level and funding. All these must be taken into serious consideration and rationally defined in reference to the average advanced level in other trades of the same category. If a contract covers a long period, an adequate ratio of accumulative increase may be set each year. "Elastic" targets may be set up in consideration of market regulation being taken as a dominant factor by the township and town enterprise. In other words, the contracting party and the contractor must through consultation come up with maximum and minimum contract targets subject to rewards when the maximum targets are fulfilled or overfulfilled and penalties when minimum targets are not met.

3. Contracts Must Be Signed in Seriousness and Fulfilled Strictly: Both the contracting party and the contractor must sign a written contract in seriousness which must also be certified by the responsible department of an enterprise and industrial and commercial administrative departments. The contents of a contract may be specified by various localities in accordance with the different forms of contract. However, the main points should include: the responsibility, power, and benefits of both the contracting party and the contractor; the amount of fixed assets and circulating fund; various contract targets; the basic wage standards for the workers and staff members of the enterprise; the principles and measures governing rewards for fulfilling or overfulfilling contract targets and penalties for failing to fulfill the same; the responsibility of paying off debts and the methods of disposing of goods and materials, finished and semifinished products in stock at the time the contract expires; the requirements and measures governing safety in production and environmental and natural protection; the enterprise's plan for technological transformation and capital construction for the period covered by the contract and the responsibility for both parties in fulfilling the plan; conditions for changing the contract, the time limit of the contract and the responsibility for the breach of contract and so on and so forth. A contract is legally binding once it is signed and both parties must strictly abide by it. In executing a contract, it is common practice that barring special circumstances it must be honored. If special circumstances necessitate a change or termination of the contract, both parties must be consulted and must take the matter to the contract certification and control board for a ruling. Neither side is allowed to scrap a contract without authorization.

4. Correctly Handling Relations Between Accumulation and Distribution and Continually Enhancing the Enterprise's Ability for Self-Development: The profits made by a contracted enterprise should be distributed according to the principle of giving consideration to the multiple interests of the state,

the townships and villages, enterprises, the investors, the contractors, and the workers and staff members. Under existing conditions, the portion of after-tax profits retained for an enterprise to expand reproduction should not be lower than 60 to 70 percent as a rule; the portion to be delivered to the contracting party should not exceed 30 to 40 percent on the whole. The income of the contractor and workers and staff members should be in keeping with the principle of to each according to his work. There should not be a wide gap in income between a factory director and manager and workers and staff members. An enterprise which became a shareholder with funds raised on its own may apply the method of drawing dividends but retaining the interest in dividends. However, the amount of dividends should not exceed 20 percent of the share.

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SMALL-SCALE ENTERPRISES

GUIDING IDEOLOGY FOR DEVELOPING BEIJING TOWNSHIP ENTERPRISES

Beijing NONGCUN GONGZUO TONGXUN [RURAL WORK NEWSLETTER] in Chinese  
No 12, 5 Dec 85 pp 14-15

[Article by Bai Yuguang [4101 2589 0342] of the Agriculture and Forestry Office of Beijing Municipal People's Government: "Rely on Two Ends To Bring Them into Line--On the Guiding Ideology of Developing Township and Town Enterprises in the Beijing Suburbs"]

[Text] Editor's note: The vigorously developing township and town enterprises have in recent years become a positive force in reforming the structure of agricultural production and a huge assimilator for shifting rural labor forces. These township and town enterprises have now come upon a series of difficulties, such as funding, raw material shortages, and rising energy prices, which at the same time exposed problems of shoddy operations and management, poor economic results, and inferior product quality in some enterprises. To further develop township and town enterprises, we must restructure, consolidate, and reform in various areas. This series of articles may be used for reference by various localities. [End editor's note]

The township and town enterprises in the suburban districts of Beijing Municipality that developed very fast in recent years have become a vital mainstay of the rural economy playing an immeasurable role in promoting the readjustment of the structure of agricultural production, bringing about agricultural modernization, and elevating living standards. The gross income of the township and town enterprises in the suburban districts in 1984 accounted for 93.4 percent of that of the rural collective economy; the net profits used as funds in subsidizing agriculture from 1978 to 1984 (namely, for purchasing agricultural machinery, construction of water-conservancy projects, support of production teams, and subsidizing agricultural bonuses) amounted to a grand total of 470 million yuan, 1.5 fold the funds allocated from municipal revenues in support of agriculture since 1978. The proportion of township and town enterprises in relation to direct or indirect participation of the commune members' collective distribution had increased yearly, its 1984 proportion accounting for 45.6 percent. The township and town enterprises in the Beijing suburbs in the meantime have become the "second front" of industries in the entire municipality with more

than 4,400 enterprises establishing stable ties of economic cooperation with urban industries and being involved in more than 1,000 projects. Nowadays, one-third of the clothes produced in the entire municipality come from the countryside, as do one-half of the shoes and two-thirds of the carpets. How will the township and town enterprises in the Beijing suburbs continue to develop in order to achieve greater speed and higher results? We must have a very clearly defined guiding ideology, which can be described briefly this way: "relying on the two ends to bring them into line." By "two ends," is meant agriculture in the suburban districts, including crop-growing and breeding undertakings, on one hand, and urban industry in the national capital, on the other hand. "Bringing them into line" means the development of the township and town enterprises should keep pace with agriculture and in line with urban industry.

The development of township and town enterprises has a natural flesh-and-blood tie with agriculture. Engels said: "In order not to let those people elbowed out of agriculture go without a job or force themselves on the cities as a result of the division of labor between industry and agriculture, they must be allowed to engage in industrial labor in the countryside." By investing money locally in running enterprises and "leaving the soil but not the village and doing work without entering the cities," China's peasants have found a way of pushing industrialization in the countryside which is different from that in the capitalist countries. Judging from the present situation, although the labor forces that shifted from agriculture to township and town enterprises have become workers, they still are listed under rural households. In a rural family there are always some people who work and others who farm. This character of farming and working concurrently by the rural labor forces and families is a specific manifestation of close integration of rural industry and agriculture in a Chinese way. On the other hand, township and town enterprises in the suburban districts cannot be developed without having to rely on agriculture. This is because the township and town enterprises are the result of the development of the agricultural productive forces to a certain stage; the speed and scale of their development, in the final analysis, is determined by farm produce and sideline products and the surplus labor force that agriculture can provide. Therefore, the development of township and town enterprises in the suburban districts must proceed from the overall situation by integrating with agricultural development. However such an integration should occur at a higher level comprising two aspects: (1) It supports agriculture in achieving modernization, that is, achieving agricultural mechanization in the form of "supplementing agriculture with industry" so as to basically raising agricultural productivity. The per capita labor productivity of township and town enterprises in 1984 was 5,187 yuan but that of the crop-growing trade was 1,319 yuan. Compared with 1980, the labor productivity of the crop-growing trade increased 54 percent and that of township and town enterprises jumped 74 percent. Agriculture was much lower than the township and town enterprises, whether in terms of standards or speed. Agriculture will decline if township and town enterprises fail to render support in developing it at a pace more or less similar to that of their own. (2) Township and town enterprises should concentrate on developing trades that "base themselves upon and serve agriculture" in order to change the situation whereby

agriculture produces only raw materials. The first step is to develop industry to process farm produce by integrating growing and breeding into an organic whole in production in the Beijing suburbs where agricultural production and processing are done locally. There is also an inexorable trend for the processing of farm produce and sideline products to shift from the cities toward the countryside. The second step is to develop storage, packing, transportation, and supply and marketing departments to serve agriculture before, during and after the production process. This is a production link that must be improved before agriculture can be specialized, commercialized, and modernized. Because such enterprises often do not make much profit, they are at times overlooked in the course of development. This again has brought up another issue, that is, in developing township and town enterprises, one cannot keep an eye on economic results alone but must also watch the comprehensive and social effects. Based on this understanding, we suggest that in consolidating township and town enterprises at the next stage, we should classify those enterprises that are in keeping with the orientation of macroeconomic and proportionate development in spite of limited output value and profits as key enterprises and give them all-out support.

By relying heavily on agriculture on one end does not mean ignoring urban industry on the other. Township and town enterprises in the Beijing suburbs enjoy exceptional advantages in relying on large industries. According to the national capital construction planning, the principle of distribution of industry is to transform and streamline industries in the city proper, readjust and control industries in the suburbs, and energetically develop industries in the outer suburbs. The principle of industrial development in the outer suburbs, on the other hand, calls for the building of satellite cities and townships and small industrial districts to be supplemented with district and county industries and township and town enterprises. Speaking of suburban districts, there are vast space, ample labor force, and rich natural resources there, and the peasants also aspire to take over some of the tasks in processing products and parts from urban industry. Consequently, the trend of development is that township and town enterprises will be relying on urban industry, which in turn will be backed by the rural enterprises, as the two mutually depend on each other.

If it is true that the township and town enterprises in the Beijing suburbs do not rely solidly on agriculture, neither do they rely heavily on industry. This is manifested principally in: (1) There is a gap in both magnitude and depth in their ties with urban industry. Take, for example, the output value of the products processed, assembled into complete sets and classified in the same category after processing by the cities, according to last year's statistics, it accounted for approximately 36.9 percent of the output value of township and town industry (which in Shanghai accounted for 65 percent). To carry out technological transformation of township and town enterprises by relying on the technological advantages of the state-owned large industries alone is not sufficient. (2) A certain degree of blindness in action existed in integrating township and town enterprises with urban industry; it is basically a "loose integration" like "a maid scattering flowers here and there." Township and

town enterprises in the suburban districts are divided into 15 departments each with a little of everything and are ready to do business as long as there is a profit to be made. Some are duplications of urban industry, some have not been developed when they should. According to the trend of urban industrial development in the capital, those sectors that should be developed with priority are the food industry, electronics industry, new-type building materials and machinebuilding industries (moving toward technology-intensive industry), the textile industry and the new-type chemical material industry. The development of township and town enterprises should be in keeping with the strategy mentioned above. The basic tactic is "more integration and less competition" and establishing a new-type relationship of "mutual accommodation" with urban industry. In the meantime, township and town enterprises should score successes by turning out products in small quantities but more variety in a manner of small but specialized, small but superior, small but new, and small but inexpensive. Besides assembling into complete sets and processing for urban industry, township and town enterprises should also turn out some independent products to make good the omissions and deficiencies of large industry.

In short, to develop the township and town enterprises in the Beijing suburbs, it is necessary to handle two benign cycles well in the macroeconomic field: (1) That involving the industry, commerce, and transportation trade within the rural economy and agriculture, with the focal point on the three-dimensional development of agriculture. (2) The benign cycle between township and town enterprises and urban industry that will integrate large, medium, and small industries and merge urban and rural industries into an organic whole. These two links are interrelated and mutually influencing. This is an important guiding ideology being considered by us for developing township and town enterprises in the Beijing suburbs.

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## SMALL-SCALE ENTERPRISES

### SICHUAN TOWNSHIP, TOWN ENTERPRISES SHOW STEADY DEVELOPMENT

Beijing NONGMIN RIBAO in Chinese 29 Jan 86 p 1

[Article by Lei Zhongming [7191 0112 2494]: "Steady Development of Farm Produce-Processing, Building Materials, and Energy--The Three Mainstays of Sichuan's Township and Town Enterprises"]

[Text] Sichuan's township and town enterprises are developing with great vitality in the course of national economic readjustment. Steady development at high speed and with good results is gaining momentum. The gross output value of Sichuan's township and town enterprises last year came to 13 billion yuan, an increase of more than 40 percent over the preceding year. Fairly good economic and social comprehensive results were also achieved with the simultaneous increase in the tax delivered and profits made by enterprises.

Sichuan's leading organs at all levels paid special attention to the development of township and town enterprises. In spite of the country's tight money-market situation last year, they managed to "survive the stringency, achieve good results in spite of scarcity, make a concerted effort, and tide over the difficulty," tapped financial resources for developing township and town enterprises, and ensured the completion and start-up of several key construction projects and projects of technical transformation on or ahead of schedule. While facing financial difficulties, the provincial government appropriated a special fund of 10 million yuan for developing "short-term, applicable, and fast" projects of township and town enterprises. It also mobilized the masses to jointly raise more than 700 million yuan in funds and drew in more than 100 million yuan from departments concerned both inside and outside Sichuan Province, thereby energetically accelerating the development of township and town enterprises.

In vigorously developing township and town enterprises, Sichuan Province has paid much attention to utilizing the rich local resources, giving full play to the advantages of resources and actively developing marketable new products much needed in the market. At present, Sichuan's township and town enterprises have achieved notable results in concentrating on the development of products of the three mainstays: the food-processing, farm produce, and sideline products industries, the energy and mineral products industry, and the building materials industry. The output value yielded by the products



from these three mainstay industries accounted for approximately 70 percent of the gross output value. More than 10 products, including canned goods and QU [2575] wine produced and brewed by the township and town enterprises won national and provincial titles for fine-quality products. Other products such as raw silk, glass fiber reinforced cooling towers and textile fittings are also being sold overseas.

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## CONSTRUCTION

### ADJUSTING INVESTMENT SCALE OF CAPITAL CONSTRUCTION

Hefei ANHUI RIBAO in Chinese 19 Oct 85 p 1

[Article by Chen Shengjie [7115 5110 2638], deputy director of the Provincial Capital Construction Economic Research Association: "Resolutely Control Investment Scale of Capital Construction"]

[Text] Capital construction should be suited to the national strength, only then can economic construction steadily develop in accordance with planned and proportionate socialist economic laws. In the last few years, the investment scale of capital construction in some areas of Anhui has been excessively large, especially the large increase in foreign investment, domestic loans, and funds raised by the areas on their own. For instance, from January to August of this year, foreign investment in projects was 1.8-fold higher than the same period last year and the funds and scope of capital construction for some areas has tended to get out of hand.

This excessive investment scale of capital construction has brought about harmful results. Looking at the overall situation of Anhui's capital construction for the period of January to August, the main indicators of investment results have all dropped in comparison to the same period last year: The proportion of construction projects that went into operation last year was 10.7 percent, this figure dropped to 8.9 percent this year; the completion rate of building construction has dropped to 12.7 percent from 16.9 percent during the same period last year; and the proportion of fixed assets that were made available dropped to 11.3 percent from 12.9 percent. Due to capital construction developing in all areas, going forward on all fronts, its structure becoming too large, and its manpower, financial resources, and material being scattered has led to the completion of some key projects not being guaranteed and rate of progress of projects being slowed. During the first 8 months of this year, Anhui had five key projects that achieved less than 40 percent of the progress planned for the year. The planned construction capacity for local construction projects was insufficient and management was unable to keep abreast, leading to the quality of projects in some areas being crude and inferior, with some areas having to do work over or replace construction with new work. There is a connection between this wasteful construction and the investment scale of capital construction being excessively large.

With this large-scale capital construction, the supply of building materials cannot keep up, there is a shortage of important materials, such as reinforcing rods and concrete. Work has stopped on many projects while they wait for materials, leaving projects started that cannot be completed. This has even created instability in economic life and battered the plan for the national economy, bringing about serious political and economic losses that are not conducive to conducting reform in a smooth manner.

The reason for the excessively large scale of capital construction is that it was not handled according to objective economic law. Some units lack an overall sense of responsibility and scientific approach, they go about construction in a blind, rushed, and repetitive way. Units even compete with each other concerning the scope and speed of construction, which causes the investment scale to lose contact with objective reality.

In order to set a quality standard for building projects, to raise results from investment, and to guarantee smooth reform of the economic system, we must resolutely control the investment scale of capital construction. Controlling the investment scale is not done with expedient or stop-and-go methods but is a problem of economic construction that demands attention for a long time.

In controlling the investment scale of capital construction, we must correct the erroneous thinking of being impatient for success and eager for instant benefit, clarify the relationship between present and future, and the relationship between the local and the overall situation. All construction projects must be in keeping with the overall needs of socialist economic construction and must be beneficial to promoting reform of the economic system. When starting a project we should conduct scientific feasibility studies from the high plane of economic and social benefit and the aspects of direction of development, development prospects, short- and long-term economic benefits, and whether or not the overall arrangement is reasonable. Important projects must not be started arbitrarily without having a feasibility study done first.

Capital construction should adhere to the principle of doing what one is capable of so that society's needs and provisions can be fulfilled and so that both subjective desires and objective reality can be dealt with. We should also reserve a certain margin and do things in order of importance. Projects that are not urgent should not be started, projects that can be put off for the time being should be delayed, and the investment scale should be reduced when possible.

We should carry out inspection and revision of projects that are waiting to be started and those currently under construction. Resolute measures must be taken against projects that were started blindly, involve large investment, long construction time, poor results, and are duplicative. Projects that should be stopped are to be stopped, and projects that should be delayed are to be delayed.

Looking at the situation in Anhui, to control the investment scale of capital construction, the amount of investment loans must be reduced and grants must

be based on feasibility studies so the size of the investment scale can be checked at the channels for funds.

Capital construction procedures should be followed strictly, and a good job should be done, especially in preparatory work, during the early stages of a key project. Work should not be started hastily before preparatory work in the early stages is completed. Investment funds raised by enterprises for capital construction should be controlled and managed appropriately, and not all the funds are to be used for capital construction. Correctly handling relations between the state and collectives and enterprises will cause construction and production to have synchronized development.

We should persist in carrying out reform of capital construction, work hard at invigorating areas where it is needed, have rigid management where called for, and strive to have capital construction be well matched to China's economic strength. This will enable the national economy to have long-term healthy development in a planned and proportionate manner.

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## CHINA ADVANCES IN CAPITAL CONSTRUCTION

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 6 Dec 85 p 1

[Article: "Over 450 Large and Medium-Sized Projects Completed in 5 Years"]

[Text] Statistical data released by the State Planning Commission show that as a result of the accelerated progress made in capital construction during the Sixth 5-Year Plan period, China has significantly increased its economic strength.

According to preliminary estimates, the work volume of capital construction projects completed by units owned by the whole people during the Sixth 5-Year Plan period was over 40 percent greater than that of the preceding period. As a whole, more than 450 large and medium-sized projects and over 750 single projects were completed and became operational. The utilization rate of fixed assets was raised from 74.6 percent during the Fifth 5-Year Plan period to 76.3 percent; with the completion and start-up rate of large and medium-sized projects rising from 7.4 percent to 10.9 percent. The rate of completed housing areas increased from 49.8 percent to 51 percent. During the Sixth 5-Year Plan period, key construction projects such as energy, transportation, raw and semifinished materials, etc., were strengthened. These include newly installed generating capacity of 19.61 million kW, up by 6.71 million kW over the target set by the Sixth 5-Year Plan. Likewise, the newly increased output of crude oil was 44.92 million tons, up by 9.96 million tons over the target set by the Sixth 5-Year Plan while the newly increased output of raw coal reached 84.66 million tons. The total length of newly constructed railroads, double-track rail lines, and electrified railroads was 1,695 kilometers, 1,700 kilometers, and 2,325 kilometers respectively. The newly increased volume of freight handled by coastal ports was 100 million tons. Productivity also rose in the manufacture of iron, steel, nonferrous metals, petrochemical products, building materials, etc. In scientific research, culture, education, public health, housing for workers, public facilities in cities, etc., there was evidence of growth. The completion of 400 million square meters of housing for urban dwellers showed an increase of 17 million square meters over the Fifth 5-Year Plan period.

The development of the building industry in China during the Sixth 5-Year Plan was equally rapid. It is estimated that during this period the output value of completed projects will be over 3.2 billion yuan, exceeding the



plan target by 53 percent. Construction acreage of various types of buildings to be completed will be 920 million square meters, a rise of 32 percent.

During the Sixth 5-Year Plan period the building industry was also active in opening up foreign markets. As a result, China has successively signed contracts for building projects and labor and service cooperation with over 60 countries and regions. The total amount of the contracts was \$4.26 billion.

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CONSTRUCTION

GUANGDONG PROVINCE EXPANDS NON-FERROUS METAL PRODUCTION

HK050338 Beijing CHINA DAILY in English 5 Mar 86 p 2

[Article by staff reporter Zhang Chuxiong]

[Text] Guangzhou--Guangdong Province has been building export-oriented non-ferrous metals production and processing bases with state aid, said Yang Xiaoguang, president of China National Non-Ferrous Metals Import and Export Corporation Guangdong Branch (CNNFIEG).

The province has rich natural resources of more than 30 kinds of non-ferrous metals. The workable reserves of ilmenite ore, zircon and tellurium rank first, with lead, niobium, tantalum, bismuth, silver, manazite, yttrium ore, germanium and thallium second; zinc and cadmium, third; tin fourth and tungsten fifth in the country. Cobalt reserves on Hainan Island are the richest in Asia, Yang told CHINA DAILY.

CNNFIEG is an integrated trade-industry-technology company and has been exporting some 64 kinds of non-ferrous metals not only for Guangdong Province, but also for Hunan, Yunnan, Guizhou, Sichuan Provinces and Guangxi Zhuang Autonomous Region, worth over \$20 million a year, Yang said.

To meet the ever-increasing demand in domestic and world markets, about 300 million yuan (\$100 million) has been invested in building a lead and zinc production base which is still under construction, a lead and zinc mine with an annual capacity of 120,000 tons has been built and a plant capable of smelting 50,000 tons of the metals a year is now in operation. In the next few years, the mine and smeltery will be expanded to have an annual capacity of 150,000 tons and 75,000-100,000 tons respectively.

Some 70 million yuan is being used to build a rare earth production base which has now an annual capacity of 500 tons of various rare earth elements and will soon be expanded to 150,000 tons a year, Yang said.

The construction of a copper and aluminium processing base with an annual processing capacity of 120,000 tons of copper and aluminium will soon start at a cost of about 600 million yuan.

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## CONSTRUCTION

### ADVANTAGES OF CONCRETE BLOCK OUTLINED

Beijing JINGJI RIBAO in Chinese 18 Nov 85 p 3

[Article by Wu Jiarong [0702 4471 2837]: "Advantages of Using Concrete Block as Building Material"]

[Text] Based on calculations from concerned departments, during the next 10 to 20 years China will build over 2.5 billion square meters of dwellings in cities and towns, and more than 12 billion square meters of buildings in rural areas. In addition to this, structures will also be built for industrial, public, and educational use. Regardless of whether in the cities or rural areas, the problem of building-material supply should be promptly resolved. Currently, nationwide over 90 percent of buildings are constructed with solid clay bricks. Annual production totals 160 billion bricks, of which 75 percent are fired in rural commune and brigade kilns. Rural areas taking soil to make bricks has caused a large amount of cultivated land to be ruined, and because large amounts of coal are consumed firing brick, the cost of coal has risen, which has led to an increase in the price of brick and higher construction costs. Faced with these conditions, how to go about improving building materials has become an extremely urgent problem. Developing the production of concrete block is a fairly ideal way to improve building materials.

Some countries in Europe and America have been using concrete block in construction for over 100 years. Currently, in these countries concrete block accounts for 70 to 80 percent of the building material used for wall construction. Concrete blocks are strong, have many different slots, a smooth surface, beautiful colors, and several hundred types, therefore, they can be used in many variations for building construction that is artistic and tasteful.

Looking at the conditions of China, using concrete block in place of solid clay brick has the following advantages:

1. It will save farmland. It is estimated that using clay to make bricks in flatland areas ruins 1 mu of land for every 2 million bricks made. In cultivated areas of the southwest where the layer of topsoil is thin, one mu of land is ruined for every 200,000 bricks made. By using concrete block as building material, around 150,000 mu of land can be saved each year.

2. It will conserve energy. According to statistics, the amount of coal consumed to make a square meter of #24 clay brick wall is 3.14 times as much as is needed if concrete block is used. Calculated on the production of 1 billion concrete bricks, this would conserve 1.3 million tons of coal (standard coal).

3. It would be beneficial in handling waste residue. Thermal power plants throughout China create 40 million tons of coal ash annually, this ash is the main raw material needed to manufacture concrete brick. Using this ash and waste from other industries for the manufacture of concrete brick would turn waste into something needed and remove pollutants.

4. It can lower the cost of construction building and reduce construction time. In comparing structures built using concrete block and those built with clay brick, the former's construction labor efficiency is 33 percent higher than the latter. This can reduce labor wages during construction by 49.2 percent and reduce construction time by one-third.

5. Investment for concrete block factories is small, the startup time quick, and the overall economic benefits are high. Building an automated production concrete-block factory only requires about one-fourth the investment that is required for building an equivalent sized concrete plate factory.

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CONSTRUCTION

DEEPWATER BERTHS OPENED AT ZHENJIANG'S DAGANG

Nanjing XINHUA RIBAO in Chinese 1 Dec 85 p 1

[Article by Zhang Jibin [1728 4949 2430] and Lin Jingshan [2651 0079 1472]: "Four Deepwater, 10,000-Ton-Class Berths at Zhenjiang's Dagang Have Passed National Standards"]

[Text] The first phase in harbor construction Zhenjian'g Dagang has been completed ahead of schedule, and yesterday it was declared to have passed national standards. Now the long Chiang Jinag has another moderized deep-water harbor.

Harbor construction at Dagang has been facilitated by a number of favorable conditions. This site is at a concave bank along the southern side of the Chiang Jiang where the river twists slightly. The shoreline is stable, straight, and extends 5 km. The river is broad, deep, and flow is slow. The deepwater channel is more than 10 meters deep and is 1.2 km wide. Also, the harbor site is located at the convergence of two important waterways, the Chiang Jiang and the Nanjing-Hangzhou segment of the Grand Canal. It is extremely convenient to transport goods by sea, river, canal, and land. Boats need travel only 260 km east to enter the sea at Wusong. By traveling upriver, they can reach Anhui, Jiangxi, Hubei, Hunan, Sichuan, and other provinces. By traveling 9 and 22 km to the west, boats can reach south and north entrances, respectively, to the Grand Canal. The Lixia He, Haui He, Hongze Hu, Tai Hu, and other waterway systems can be formed into one extensive water transport system with Dagang at the hub.

The Dagang Harbor project is one of the state's large- and medium-scale construction projects. It includes four 10,000-ton-class deepwater berths, a 2,000-ton floating dry dock, seven piers for transferring goods to and from internal waterways, a large 11,000-square-meter parts warehouse, a 2,000-square-meter granary, a 130,000-square-meter storage yard, and water, electricity, and communications facilities. There will also be complete installation of environmental protection equipment, loading and unloading machinery, and work boats for the harbor area. Total investment is 100,430,000 yuan. The deepwater berths are planned with an annual inbound and outbound freight capacity of 2.36 million tons.



Since 1982, when work on the project was resumed, progress has been rapid. In April this year, the first and second berths were finished ahead of schedule and put into trial use. Up until the end of this month, eight 10,000-ton freighters had been berthed (among which was an international cruise ship), and a number of loads of iron ore, coal, cars, and other goods had been loaded and unloaded.

The Dagang Harbor project, upon completion will be a part of the harbor complex formed with the Nantong, Zhangjia, and Nanjing harbors. It will help stimulate the domestic economy and open up China to the international economy. It will help the development of Subei and the further development of Sunan. And it will play an important role in the prosperous expansion of economic zones in Shanghai and in the provinces along the Chiang Jiang.

Yesterday afternoon, responsible comrades from the provincial government and the Zhenjiang City government, along with experts and technical personnel, participated in a ceremony marking the completion of the project and watched actual loading and unloading at the dock.

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## CONSTRUCTION

### TIANJIN REPLACES TEMPORARY SHEDS WITH MODERN RESIDENCES

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 3 Dec 85 p 3

[Article: "Sixteen Million Square Meters of Housing Constructed in Tianjin During Past 4 Years"]

[Text] According the TIANJIN RIBAO, in the past there were thatched sheds strewn at random, and today there are high rise buildings packed as close as teeth on a comb. Architecture within Tianjin, the old hometown, has undergone a tremendous transformation. This is the strong impression one has of how outsiders and long-time Tianjin residents have accomplished so much in dismantling the sheds and in constructing buildings. In the past 4 years, more than 16.9 million square meters of new housing has been built, like bamboo shoots sprouting after a spring shower. This has added new color and diversity to the old city, and the living conditions of the city's residents have clearly improved.

The construction of new districts and the reconstruction of older districts have been linked together. In 1976, Tianjin was struck by an extremely strong earthquake. There was severe destruction of every kind of residence. After this, all kinds of temporary sheds were erected along every road and lane. The municipal party committee and government accorded residential construction high priority, and the improvement of the residents' living conditions occupied first place. In 1981, large-scale work was begun throughout the city in dismantling the sheds and constructing buildings. During the past 4 years, more than 20 new residential districts have been built or are currently being built. At the same time, more than 400 old districts within the city have been reconstructed. This includes more than 50 small places which have more than 10,000 square meters of housing.

The architectural patterns are diverse. Beginning in 1981, residential housing has shifted from scattered buildings to buildings sited along streets, from 3 to 4 storied buildings to multi-storied buildings and to high-rises. The new architecture also departs from the monotonous straight, even lines of the past and instead pays attention to varying the heights of buildings, including dispersed and clustered styles. Formerly, parks were placed in the midst of buildings to improve the scenery, but now buildings are placed in the midst of parks to provide housing. Formerly, residential complexes lacked complete amenities and services, but now there are food shops and recreational facilities.

Architectural styles express the unique characteristics of a locality, with richly varying colors that range from the simple and elegant to the vivid and beautiful. This has changed the unvarying drab styles of the past.

The interior features in the residences have been continuously improved. The high-rise residential buildings are equipped with elevators, gas, and central heating. In addition, the typical building usually features closets, sit-down toilets, and some also have sinks and bath water jars. There are also centralized antenna systems for entire buildings. Electrical lines, which used to be unconcealed, now are concealed, and more electrical outlets have been added. Many residential units are for single families, built as single-, double-, and triple-units. Many units have a multifunction room. In the new residences, virtually every family has a sun porch, and those who live on the ground floor have a courtyard. New soundproof, insulated walls built with wood boards and insulated steel-framed windows are widely used in residential construction.

The buildings have been financed by investments from many sources. Residences have been commercialized. During the past 4 years, many channels have been used to raise funds in Tianjin, opening up sources of finance for residential construction that have made up for inadequate funds. The adoption of the policy of "donating land for building residences" and the use of a centralized plan have solved the problem of land use and facilitated the construction of residences. There have been a number of projects that have been finished and into which families have moved in the same year that construction had begun. At the same time, the commercialization of residences has been actively promoted. Total development has begun experimentally, and newly built residences have been sold to work units, and with the help of subsidies sold to individuals, too. The money that is collected is then used to build new residences, thus realizing a positive kind of circulation of residential construction funds. Under conditions where the city's population has been steadily increasing, the average amount of housing space per capita has steadily increased. Currently, the average per capita has reached 7 square meters.

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## FOREIGN TRADE AND INVESTMENT

### ECONOMICALLY AUTONOMOUS CITIES SET RECORD IN 1985

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 22 Dec 85 p 3

[Article: "Seven Economically Autonomous Cities Achieve Record Foreign Exchange Earnings in 1985"]

[Text] By using foreign trade to invigorate their economy, most of the seven economically autonomous key cities in the nation achieved record foreign exchange earnings in 1985.

Previously denied the power to engage in import and export operations, the seven economically autonomous cities of Guangzhou, Wuhan, Chongqing, Xi'an, Luda, Shenyang and Harbin merely engaged in the purchasing of export commodities in their provinces so that their import and export operations had never developed to any extent. During the last 2 or 3 years, however, they were established one by one as ports empowered to engage directly in import and export operations with foreign countries. Although they had to make a start in economic operations almost from scratch, a new situation came about in short order. Since its adoption of measures to take a united stand in dealing with foreigners, to expand the volume of exports, and to encourage the production of export commodities, Chongqing has greatly increased its yearly foreign exchange earnings. Export earnings in 1984 showed an increase of 120 percent compared to 1983, while those in 1985 are expected to exceed the 1984 figure by 60 percent.

A common difficulty encountered by these cities is the few new affluent households. They had to resort to various means of advertising to make known the varieties, quality, and performance of their export commodities to attract foreign clients and to improve the quality of their products to win over their customers. This year, those in leadership positions in the Wuhan Economic and Trade Commission took the lead in organizing 10 groups of their staff workers to visit the grassroot units of the various specialized foreign trade companies to help them resolve various problems in their export operations and to stress the need to improve the quality of their products, to develop new product varieties, and to win over their clients and markets by improving their prestige and workstyle. Wuhan has now established relations with almost 1,000 foreign businesses and clients. Although established as a port only this year, it has already achieved notable results. By the end of November, its export transactions had exceeded \$600 million.

To overcome the handicap of having little experience as trading ports, these economically autonomous cities have established various types of cooperation, such as the division of labor with old trading ports. Within a short period of time, they have acquired the ability to operate on their own, to provide training to a group of operational personnel, and to establish a foreign trade system to enable them to cope with their tasks.

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## FOREIGN TRADE AND INVESTMENT

### SHANGHAI PLANS TO BOOST EXPORT VOLUME IN 1986

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 8 Jan 86 p 1

[Article: "Shanghai Adopts New Measures To Increase Export Trade in 1986"]

[Text] Zhuang Yulin [5445 3768 7792], deputy director of the Shanghai Foreign Economic Relations and Trade Commission, revealed that Shanghai's export quota for 1986 will exceed last year's figure by 9.4 percent.

The statement was made sometime ago by Zhuang Yulin at a meeting of the Shanghai municipal government on foreign trade operations.

It has been learned that strategic measures had been formulated at the meeting for Shanghai to enlarge its export volume during the Seventh 5-Year Plan period (1986-1990). These measures include the consolidation of the traditional market in Hong Kong and Macao, the expansion of the market in Latin America and Africa, the promotion of closer cooperation among the communication and transportation departments, and the achievement of greater efficiency in the transportation of export commodities.

He stated that Shanghai was well aware of the fact that the extent and the speed at which the open door policy can be implemented depended on its ability to increase its exports and foreign exchange earnings at an early date.

In 1985, Shanghai was able to fulfill its import quota of \$3.3 billion set by the state. This quota, however, represented an actual decrease of \$200 million compared to 1984.

Since Shanghai achieved its export record of \$4.27 billion in 1980, its export volume has been at a standstill for 5 consecutive years. For the last 3 years, its exports have hovered around \$2.8 billion. In the first half of 1985, difficulty was encountered by Shanghai in fulfilling its export quota. Thereupon, timely measures were adopted by the Shanghai municipal government to encourage exports with the result that export volume showed a monthly increase during the last half of the year.

It has been pointed out by economic experts that an adequate amount of foreign exchange income is crucial to the industrial development of Shanghai,

which accounts for one-ninth of the GUIO in the nation. For instance, the technical reform of the old enterprises requires the import of more advanced technologies from abroad, while the basic installations in Shanghai also stand in need of large amounts of foreign capital.

Zhuang Yulin said that in 1986, Shanghai will make a start in establishing a number of factories for the production of export industrial products as well as bases for the production of subsidiary agricultural products for export and that it will direct its efforts toward the production of commodities to meet international market demands and the improvement of the quality of its products.

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FOREIGN TRADE AND INVESTMENT

FUJIAN TOWNSHIP, TOWN ENTERPRISES VIGOROUSLY DEVELOP EXPORTS

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 22 Dec 85 p 3

[Article: "Township and Town Enterprises in Fujian Develop Exports in Aggressive Manner"]

[Text] As a result of engaging vigorously in the production of export products, the township and town enterprises in Fujian Province were able to export products valued at almost \$200 million, or one-fifth of the total for the province, during 1985. Since the adoption of special policies and flexible measures by the province, its township and town enterprises have been developing at a rapid rate. There are now 170,000 township and town enterprises in the province employing 2 million people. These enterprises earned a record 7 billion yuan in 1985, or 3 billion over the amount for last year.

The major township and town enterprises in Fujian are industrial, construction, agricultural, commercial services and communication and transportation enterprises. Keeping an eye on international market demands, these enterprises are taking advantage of their abundant natural resources from the mountains and the sea to develop the production of export commodities. Major exports include domestic livestock, handicraft articles, light industry products, grain, and oil. The enterprises processing dried bamboo shoots in the various bamboo-producing rural areas in Sanming City, availing themselves of their abundant bamboo resources, produced the highly-valued "Yulanpian" brand of bamboo shoots which earned over \$90,000 during the year. Taking advantage of their proximity to the sea, such coastal counties as Lianjiang and Pingtan are engaged in the cultivation of laver. A contract was signed this year with clients from Hong Kong. Up to now, 40 tons of laver valued at \$100,000 has been exported. Fuzhou, known as the home of the jasmine, is engaged in the development of potted jasmines in response to Hong Kong market demands. It has signed an agreement with the Binfen Horticultural Co. in Hong Kong to export 200,000 pots of jasmine valued at \$260,000.

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FOREIGN TRADE AND INVESTMENT

SHANGHAI, JIANGSU, ZHEJIANG PROMOTE DRAWNWORK EXPORTS

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 8 Jan 86 p 1

[Article: "Jiangsu, Zhejiang, and Shanghai Achieve Notable Results by Engaging in Joint Operations To Promote Drawnwork Exports"]

[Text] By taking a united stand in dealing with foreigners and establishing a joint company to promote drawnwork exports, the two provinces of Jiangsu and Zhejiang and the city of Shanghai have achieved notable results, gained valuable experience in the reform of the foreign trade structure, and proved the efficacy of transprovincial joint foreign trade operations.

Due to administrative demarcations in the past, the various provinces and cities tended to do things their own way in the field of foreign trade, to develop blindly, and to compete among themselves. As a result, the pricing of drawnwork products was confused, stockpiles mounted and profits were reduced. The year 1983 witnessed a sharp drop in foreign exchange earnings. To reverse the unfavorable situation without delay, the two provinces of Jiangsu and Zhejiang and the city of Shanghai, having decided to take a united stand in dealing with foreigners, established a company under the auspices of the Ministry of Foreign Economic Relations and Trade to engage jointly in export operations in early 1984. This company is a joint economic entity with independent accounting.

The establishment of the joint company has created favorable conditions for taking a united stand in dealing with foreigners and brought about a notably higher degree of economic effectiveness. During 1984, there was a large drop in the amount of goods held in stock and in the cost of earning foreign exchange and a 100 percent increase in the fulfillment of contract obligations. In 1985, not only was the export quota successfully fulfilled, but there was a further drop in the amount of goods held in stock and a reduction in expenditures and costs. Ranking first in economic effectiveness among businesses in the same trade, this company is held in high regard by foreign clients who appreciate the convenience of and have confidence in verbal commitments. The uniformity of prices has also stopped up a loophole for speculative traders.

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LABOR AND WAGES

WAGE REFORM IN STATE-OWNED ENTERPRISES DISCUSSED

Guangzhou GUANGZHOU YANJIU [STUDIES ON GUANGZHOU] in Chinese No 1, 85 pp 24-27

[Article by Wang Ju [3769 3818] of the Department of Economics of Zhongshan University: "A Preliminary Discussion of the Ideas Behind Wage Reform in China's State-Owned Enterprises and Their Theoretical Foundation"]

[Text] [Editor's note] Proceeding from the basis that the distribution system must conform to China's realities and favor the goal of promoting production development, this article proposes the idea of changing from "low wages and high subsidies" to "higher wages and fewer subsidies," changing from the one level management system by the state to a two-level management system by the state and enterprise, with the enterprise as the key, and changing from fixed wages to structural wages. A theoretical explanation was conducted on this idea. [End of editor's note]

The existing wage system in China was basically formulated in 1956. Its characteristics were: A unitary form of wage distribution; direct control by the state over wage management and decision making; and the implementation of the wage distribution policy of low wages and high subsidies. At the time, this wage system played a definite and positive role in stabilizing the people's livelihood. With the continuous development of China's national economy, in particular since the 3d Plenum of the 11th CPC Central Committee, a commodity economy has developed to a great extent in China's countryside, cities and towns. The shortcomings of the above wage system have thus become obvious. To solve these shortcomings, we cannot simply revise and patch up the former wage system. A thorough reform is necessary. Furthermore, to carry out the wage reform, we must first of all determine the fundamental principles of the wage reform.

I. Wage Reform in China's State-owned Enterprises Should Observe Two Fundamental Principles

The first principle of wage system reform is that the distribution system must promote development of production.

As everyone knows, production determines distribution, and the quantity of products produced determines the amount of distribution. Whether it is the state, the enterprise or the individual staff member or worker, the only path



to obtaining more income is to accelerate production development. The economic development of a country and the profit of an enterprise are both the result of the labor of every staff member and worker. Thus, the enthusiasm of the laborer is a basic factor for developing production. Under existing conditions, the basic measure to mobilize the enthusiasm of the staff members and workers is to link the material interest of the staff members and workers with the results of their labor. Therefore, the problems to be resolved in the distribution link are what form of link to adopt and how to determine the criteria for linking material interest and labor results. Combining the two aspects properly, distribution can enable staff and workers to maintain higher labor enthusiasm for a long period of time, which will in turn promote production development. Failing to combine the two aspects properly, distribution will fail to play the role of mobilizing the enthusiasm of the staff members and workers, and will in turn fail to develop production smoothly. Distribution then will play a negative role in production. The same amount of distribution but different specific forms of distribution will play different roles in encouraging staff and workers, which will produce different results in the course of production. The form of distribution which can promote production development is rational and positive, while the form of distribution which cannot promote production development is irrational and must be reformed. Currently, the wage reform involves reforming the former irrational form of wage distribution and selecting a form of distribution that is most favorable to production development.

The second principle is to proceed from Chinese realities.

Distribution according to work is the fundamental principle of the distribution of individual consumer products under socialism. According to Marx, distribution according to work must embody the following economic factors: (A) The entire society has a unitary system of ownership, that is an integrated body of free people, and does not have any other systems of ownership. (B) There are no commodities and currencies, the labor of the individual directly becomes a part of social labor, and the labor time directly represents the amount of labor of each individual. (C) Only a two-level relationship of interest exists, that is, the society and the individual. The enterprise is only an administrative subordinating organization without its independent economic interest. The economic factors of China at this stage, however, are quite different from Marx's concept. They are manifested in: (A) The existence of diverse economic components. We not only have the system of state ownership and the system of collective ownership, but also such economic components as the individual economy and state capitalism. (B) Within the system of state ownership there exist not two but three main bodies of interest, in which the enterprise exists as a major body of economic interest participating in socioeconomic activities. (C) At the present stage, a commodity economy not only exists in our country, but will also develop to a relatively great extent for a considerable period of time in the future. Due to the differences in social factors, we cannot copy the form of realization and the means of management of distribution according to work which Marx conceived, but should proceed from the realities of China.

How should we conduct the reform of the system of wage distribution in integration with the reality of our country? I feel that we must at least

accomplish the following points: First, we should have different wage distribution criteria for different systems of ownership. The state must implement differential management in the wage distribution within a system of ownership. This differential management is primarily a management with economic measures. Second, within the system of state ownership, the enterprise should be regarded as the central link in the specific distribution of wages. Third, distribution according to work is realized in a commodity economy and not in a product economy. After the staff members and workers receive their monetary wages, they must exchange for the products which they need on the market. Thus, the changes of commodity prices directly influence the purchasing power of staff and workers using their monetary wages. This thus links wages with prices.

In light of the above two principles, I feel that, at the present stage, the reform of the wage system in China's state-owned enterprises should include the following three major areas: (1) Reform the distribution policy for the consumption fund by increasing the percentage of wages in the income of the staff members and workers and correspondingly reducing their subsidies. Change low wages and high subsidies to higher wages and fewer subsidies. (2) We should change the one-level centralized system of managing wage distribution by the state to a two-level system of joint management by the state and enterprise, with the enterprise as the key. (3) Change the unitary form of fixed wage distribution into a discrete or structural wage distribution. The following is a specific explanation of each area.

## II. Reduce the Percentage of Subsidies in Staff and Worker Income and Correspondingly Increase the Percentage of Wage Distribution

Currently, the revenue of our state treasury totals roughly 120 to 130 billion yuan per year. Of this, over 30 billion yuan are used in price subsidies, constituting roughly 30 percent of our financial revenue. In 1983, the state treasury spent 34.2 billion yuan in price subsidies. Together with other kinds of subsidies, such as housing, water, electricity, transportation, grain difference, vegetables and nonstaple foodstuffs, the total was higher than the wage bill of staff and workers of the state-owned enterprises throughout the country.

The distribution policy of low wages and high subsidies embodies two shortcomings: First, it is an egalitarian distribution policy. Regardless of the type of work and the extent of labor contribution, subsidy means everyone has a share. The higher the percentage of subsidies in the income of the staff members and workers, the smaller the percentage of differential distribution according to the extent of labor contribution. Therefore, we will have difficulty widening the wage gap and encourage the laborers to make greater contributions. Second, this policy is inconsistent with the policy of opening to the outside world. Since opening to the outside world, foreign businessmen have come to China to invest in factories and carry out joint ventures. In this category of enterprises, the staff members and workers obtain their wages by means of labor service. The fee for labor service includes all kinds of subsidies. If we continue to implement the distribution policy of low wages and high subsidies, then the staff and workers of this category of enterprises will not only enjoy the price subsidies of the state,

but will also receive wages which include all kinds of subsidies. This will give rise to a wide wage difference between the staff and workers of the domestic enterprises and those in the foreign enterprises. If the state deducts a portion from the labor service fee in order to narrow the wage gap between the two categories of enterprises, then not only will the foreign businessmen fail to comprehend the situation, but the staff and workers who work in the foreign enterprises will be dissatisfied also.

At the present stage, to change from low wages and high subsidies to higher wages and fewer subsidies, with the exception of retaining the state-stipulated professional allowance for occupational hazard, all other kinds of overt and covert subsidies should be eliminated gradually and transformed into wage payments. For instance, such subsidies as water, electricity, gas, transportation, housing, grain and vegetables can correspondingly be added to wages, which then will be linked with prices and will fluctuate with price changes.

Theoretically, this approach has two advantages. First, simple consumption subsidies can only prevent the lowering of staff and worker living standards. However, if these subsidies are added to wages, then, in addition to playing the role of subsidies, they can also stimulate staff and worker enthusiasm. Playing two roles instead of one, distribution certainly is more favorable to promoting production development. Reducing subsidies and correspondingly increasing wage distribution involve only a change in the form of distribution. The effect on production is nevertheless quite different. Second, this approach conduces to allowing product prices to reflect their true value. The implementation of price subsidies is in reality a redistribution of the distribution of wages. This has confused the boundary between V and M. Longstanding price subsidies have caused the prices of many products to be divorced from their value. This hinders enterprises in calculating cost, organizing business, and managing production according to the law of commodity economy. Transferring subsidies over to wages, we not only can calculate truthfully the cost of wages but can also fix the prices of products according to their value, which will in turn help resolve the irrational phenomenon of price parities among products.

### III. Change the One-Level Centralized System of Managing Distribution by the State to a Two-Level System of Joint Management by the State and Enterprise, With the Enterprise as the Key

Like the economic system of management in other realms, the system of managing wage distribution in China involves centralized management by the state. For instance, the state stipulates unified wage criteria, wage classification and specific forms of distribution, as well as a unified promotion schedule and proportion. This centralized management system will lead to the following shortcomings: First, it has neglected the role of the enterprise in the distribution of staff and worker income. Under the terms of a commodity economy, the enterprise is the basic unit which carries out socioeconomic activities. It should have the power and responsibility to determine distribution among staff and workers in accordance with its autonomous operation. If the enterprise does not have this power, it will then fail to conform to the objective needs of the development of a commodity economy, will



lack vitality, and will fail to become an independent commodity producer. Second, it is detrimental to mobilizing staff and worker enthusiasm. Since the state cannot accurately master the labor conditions of each staff member and worker, it can only use "one method for all" in distribution. Consequently, it makes no difference whether or not one performs his job well. Labor is divorced from remuneration. In view of the principle of management, the enterprise is the closest management organization and level to the labor process of staff and workers, and can most accurately master the production progress and completion of quotas of each staff member and worker. The enterprise itself therefore has the greatest right to speak in terms of the distribution among staff members and workers. In this respect, in determining and implementing the distribution of staff and workers of an enterprise, the enterprise can represent the labor differences of each staff member and worker more accurately than the state can. Thus, the change from the one-level system of distribution with centralized state management as the key to a two-level system of distribution with joint management by the state and enterprise and enterprise management of distribution for the staff and workers as the key, constitutes major significance.

Can the specific methods be conceived as follows? After delivering the taxes and profits to the state, the enterprise will, in light of the increase in taxes and profits, retain a definite percentage of funds as the wage bill, which will be distributed according to the wage classification and criteria determined by the enterprise. In controlling the increase of the wage bill of an enterprise, the state should not adopt the method of putting an administrative ceiling, but should first of all stipulate the wage content of a unit product or the percentage of the wage content per every 100 yuan of value. If the wage fund retained by the enterprise exceeds this percentage, then regulation will be carried out on the basis of a definite progressive wage tax. Thus, wage management with the enterprise as the key is not equivalent to abandoning the state's control over the wage bill of the enterprise, but to changing from management with administrative control as the key to management with economic regulation as the key, as well as to changing from the method of control with a ceiling to control over the proportion between wage and profit increase.

#### IV. Change from the Unitary Form of Fixed Wage Distribution to the Discrete Form of Structural Wage Distribution

Currently, the form of wage distribution of China's state-owned enterprises is basically a unitary structure with fixed wages as the main body. Fixed wages are a one-time distribution stipulated by the state. After more than 20 years of practice, people have clearly recognized the inadequacy of this form of distribution. Fixed wages lack flexibility and fail to let wages change according to the alteration of a certain element. Second, in determining wage distribution, it is difficult to use fixed wages to assess the major indices. Consequently, in appraising wages, oftentimes the secondary indices become the primary basis for promotion. Third, in adopting fixed wages, all the elements must be considered in the promotion of each staff member and worker. Not qualifying in one element makes promotion difficult. In appraising wages, oftentimes each sticks to his own stand and refuses to give in. This will affect staff and worker unity and enthusiasm and will increase the burden of

enterprise management personnel. This not only will fail to play the role of promoting production, but will hinder production development. Comparing the two forms, structural wage distribution has more advantages than fixed wage distribution:

First, breaking down wages into several parts, each part corresponds to a certain element or several elements. A change in any one element will only influence the income of that related part and not the rest of the wages. For instance, the change in the job of a staff member or worker will only affect the amount of the wages for the job, but will not affect the changes in the basic wage or floating wage. Second, when the wage of a staff member or worker has changed, he will also know clearly the reason for the change. For instance, a certain staff member or worker fails to have full attendance within 6 months, which affects the product output which he has to fulfill. In this instance, his portion of the wages that is related to attendance and the individual fulfillment of product quota will be reduced. This way, he will not feel that the deduction of this portion of his wages is unreasonable. Third, this can increase the accuracy of various indices. Assessing each index separately, and carrying out distribution according to the changes of the indices of each factor, we will cut out the procedure of having to put the indices together for unified appraisal. We will save time and reduce the mistakes in the assessment of the indices of the factors and in turn increase the accuracy in the assessment of each index. Fourth, in accordance to the different roles played by the various indices in production development, we can determine the proportion in the distribution of wages. For instance, individual labor results is the most primary index, in which case the wage, which is determined by this index, should constitute a larger proportion of staff and worker incomes.

How should we classify wages? Wages in state-owned enterprises at the present stage should be best broken down into four parts: basic wage, job wage, seniority subsidy, and floating wage.

Basic wage guarantees the basic daily needs of staff and workers. It is determined by reproduction expenses of the labor force, educational expenses, and the necessary expenses for maintaining a household. The specific indices are the per capita basic livelihood expenses, academic qualification, and number of dependents. The primary difference in basic wages is in the academic qualification. This is a major index that realizes the difference between simple labor and complex labor. The change in basic wages is primarily determined by the level and speed of the development of the productive forces in the entire society. It is also affected by price change. Thus, basic wages must be linked with production and prices. Job wage or positional wage is determined by the labor factors, job responsibilities, and job differences of staff and workers. This is the basic portion that realizes the differences in the labor remuneration of staff members and workers. In accordance with the quantity of "labor," the grades can be expanded. If the labor factors and jobs of the staff members and workers change, this portion of the wages will change correspondingly. Seniority subsidy primarily takes into consideration the acceptability of the wage reform by the existing staff members and workers, and offers definite acknowledgement and encouragement to the workers who have had more experience, longer length of service, and more labor



contributions in the past. This type of subsidy can be determined by the length of service of the staff members and workers. For instance, Shenzhen Special Economic Zone has established a one-yuan annual increment for staff and workers who have had 5 years of service and more. This is an attempt to encourage them to remain in an enterprise and to reduce personnel turnover. Floating wages are regulated by enterprise profit and individual labor result. Of this, the greater the enterprise profit, the larger the retained wage fund and the higher the per capita income of enterprise staff and workers. This can embody the difference among the enterprises, while individual labor result--good or poor--can embody the differences among staff members and workers.

Due to the functional differences of the various portions of the wages in the structural wages, their proportions in the wage income should also be different. At the present stage, the wages are divided as follows: Basic wage constitutes 40 percent, job wage constitutes 30 percent, floating wage constitutes 20 percent, and seniority subsidy constitutes 10 percent, a 4:3:2:1 ratio. This seems more reasonable. Of course, this ratio should also change with production development.

In sum, the wage reform is a profound revolution in the realm of distribution in China. In the wage reform, we will encounter many complex issues, which will await further study. This article has presented several preliminary ideas by way of introduction in hopes of furthering the theory and practice of wage reform in China.

9335

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31 March 1986

## LABOR AND WAGES

## WORKERS' WAGES IN JOINT VENTURES DISCUSSED

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 12, 20 Dec 85  
p 14

[Article by Chen Ke [7115 2688]: "Workers' Wages in Joint Ventures and State Subsidies"]

[Text] There are two particular characteristics to the wages earned by Chinese workers in a joint venture: First is that the components and levels of the wages are different from state enterprises. Normally the wages of Chinese workers in a joint venture enterprise are composed of three parts: the actual wage received by the individual worker, the labor insurance funds, and the state subsidies which involve material and cultural life. The state enterprise worker directly collects his income from the enterprise but this does not include labor insurance and benefits paid out by the enterprise or the various state subsidies. The second characteristic is its distributive nature. Chinese workers in a joint venture generally will collect all their wages individually, including labor insurance and state subsidies. These characteristics are determined by the form in which joint enterprises pay the mainline staff and workers and by China's overall wage system.

At present, joint-venture enterprises are generally paying Chinese workers their individual wage, their labor insurance funds, and their state subsidies in one lump sum. The precise amount of this combined wage is a product of negotiations between both sides during the incipient stage of the joint venture and is set down in the contract. According to stipulations in the agreement, the joint enterprise is to pay its Chinese workers on a monthly basis (typically the joint-venture enterprise employs someone to handle, exclusively or as a part-time task, the management of Chinese workers' wages, insurance, and benefits). Wages are distributed to these joint-venture workers according to relevant regulations. Those things that should be collected by the individual are distributed to the individual; labor insurance funds are retained by the enterprise or are remitted to the insurance company to cover employees; state subsidies are remitted to that particular locality's financial department. The wages of Chinese employees in a joint venture are handled in the above-mentioned manner mainly because China practices a socialist distribution system. As is commonly known, socialist nations do not consider labor a commodity; labor does not have a value or price transformable into a wage. Thus various methods of distribution must be employed to maintain the productivity of the labor force and continued production of consumer

necessities. In China, workers' wages are merely one manner of distributing consumer items to individuals.

In addition to wages, China has instituted a series of subsidies and enterprises have established a system of welfare funding and a labor insurance system; these things help solve the problem of consumer goods distribution. In 1979, relevant departments did a study of the wages, labor insurance expenses, and state subsidies in several areas and found that the funds used by the state and the enterprise for workers' subsidization programs actually amounted to 1.3-fold the real collected wage of the individual worker. This exemplifies the long-used distribution system in China whereby wages are low, but the subsidies are extensive. The characteristics of a Chinese-foreign joint venture and a state enterprise are different; hence it only makes sense that the wage structure and levels should also be different. Wages for Chinese workers in a joint venture are now generally about threefold greater than in state enterprises involved in a similar industry. Included in these wages are labor insurance funds and state subsidies that are 1.3-fold (of those received by state enterprise workers). The actual wage collected by the individual worker in a joint venture is 0.2- to 0.5-fold greater than that of a state enterprise worker. The main reason for this is spelled out in Article 93 of the Chinese-Foreign Joint Venture Regulations: "Wages and bonuses in a joint venture must be distributed according to the principle the more work, the more earned." Generally speaking, joint ventures involve advanced technology and equipment from abroad and are managed according to modern methods; this requires workers of a higher technical and educational level who are capable of handling more advanced work quotas. Consequently, it is necessary that individual workers be paid a bit higher than workers in a similar state enterprise industry. Some people suggest that the regulation holding the wages of Chinese workers in a joint venture to a 0.2- to 0.5-fold higher wage than those workers at a state enterprise working in the same industry and in the same area is nothing but an earnings ceiling on Chinese workers and should hence be abolished. We feel this is not an appropriate suggestion. Because joint ventures pay wages to their Chinese employees entirely on an individual basis, the labor insurance and state subsidies are all calculated in it. If the proportion of that section of workers' wages to be actually collected is not fixed, this would inevitably lead to excessive claims on labor insurance funds and state subsidies, which could result in insufficient resources for future insurance payments. Such short-sighted thinking cannot be adopted. Of course, if management of joint ventures improves and economic returns increase, a suitable raise in actual wages would be necessary. The director of a joint venture must be realistic and at the right time should adjust or hike wages in order to arouse the enthusiasm of the workers.

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## TRANSPORTATION

### RIVER TRIPS FOR TOURISTS PLANNED ON CHANG JIANG

OW051153 Beijing XINHUA in English 1033 GMT 5 Mar 86

[Text] Shanghai, March 5 (XINHUA)--A luxury ship will begin taking tourists on trips down the Yangtze River starting on March 26, according to the Great Yangtze Travel Co., the operator of the joint-venture between two Shanghai companies and a Hong Kong firm.

The ship, named "The Great Wall", completed its trial voyage yesterday traveling from Chongqing to Shanghai. It plans to travel three routes: from Chongqing to Shanghai, Chongqing to Yichang, and Nanjing to Shanghai.

The route between Chongqing and Yichang, which traverses the famous three river gorges, will be the first route to begin.

The ship, 79 meters long and 14-meters wide, has 200 beds as well as other facilities including a swimming pool, dance hall, bar, canteen, gym and solarium.

Another luxury yacht began this month to serve tourists on an ancient canal between Hangzhou and Suzhou, according to an earlier report.

To attract more tourists, China is now developing tourist services for special interests, including river trips, mountain trips, and trips along the ancient "silk road".

/6662

CSO: 4020/245

TRANSPORTATION

BRIEFS

NEI MONGGOL RIVER FREIGHT--Hohhot, February 28 (XINHUA)--Boats and ships carrying grain and coal have begun plying again along the Yellow River in Inner Mongolia after a 20-year suspension. Officials here said today that cargo transport has been resumed along two sections of the Yellow River in the region, totalling 258 kilometers. The sections of the river had been used for transport for over 1,000 years but gave way to railways in the late 1950s when the line between Baotou, Inner Mongolia and Lanzhou, Gansu Province opened. The region's recent economic development has overburdened the railway and local authorities decided to resume river transport in 1983. Last year 1.53 million tons of goods were carried by river. Inner Mongolia plans to spend 37 million yuan over the next five years to improve Yellow River transport facilities. [Text [Beijing XINHUA in English 1131 GMT 28 Feb 86 86 OW] /6662

ICEBREAKERS IN LIAONING PORT--Shenyang, March 1 (XINHUA)--Yingkou port, located in northeast China's Liaoning Province, is scheduled to open March 5, some 20 days ahead of normal schedule, after icebreakers cleared the harbor, port officials said today. This is the first time that icebreakers have been used to open the port's navigation channels, frozen for three months of the year, since 1949 when the People's Republic of China was founded. Officials said the earlier opening means better use of the port. Everything is ready for the opening on March 5. The 120-year-old port, opened for foreign ships in October 1984, handled 285 cargo ships last year, about half being foreign ones. The port handled 890,000 tons of cargo in 1985 and is expected to handle one million tons of cargo this year, six times the figure for 1983, officials said. [Text] [Beijing XINHUA in English 1853 GMT 1 Mar 86 OW] /6662

CSO: 4020/245



HONG KONG

## HONG KONG'S ROLE IN GOLD EXCHANGE DISCUSSED

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 50, 16 Dec 85  
pp 7-8

[Article by Fu Zhu [0265 4554]: "Will Hong Kong Lose Its Central Position on the International Gold Exchange?"]

[Text] Due to a decreased volume of transactions and a reduction of activities by some gold dealers, Hong Kong's gold market has truly lost some of its vigor. However this does not necessarily mean that Hong Kong has lost its central position on the international gold exchange. The primary reason is that similar problems have appeared in other gold markets. The continuous growth of the gold market in the Asian Pacific region has presented Hong Kong with even more competitors, a challenge it must deal with seriously.

### Sluggish Transactions, Reduced Business Scope

The gold exchange is one of the most important financial activities of Hong Kong. It can be said that one reason why Hong Kong became an international financial center is the important position held by its gold market in the international gold markets. However the Hong Kong gold market, which had been developing rapidly since the 1970's, is now undergoing difficulties which have worsened since the beginning of this year. The main component parts of the market have fallen into a state of sluggish activity.

Due to the fact that statistics have never been published, there is no way to study changes in the gold and silver trade. However it can be confirmed that business is not the same as in the past for the Hong Kong gold exchange, this central place of transaction. The main basis for this situation is: 1. Trade has slackened. A few years ago, the market was a hubbub of people, the ringing of telephones and the shouting of prices. today the scene is not nearly as lively. 2. There has been a sharp decrease in the price of license-transfer on the market. Because the number of seats for brokers has not been increased for years, license-transfer prices increased to 2.5 million yuan in the early 1980's, but according to informed sources on the market, recent prices have fallen to approximately

500,000 yuan. Although this is certainly related to the increase of gold-exchange channels, it is actually a reflection of the reduction of and difficulties in business.

Business on the local volume of the London gold market has also clearly been reduced. The local volume of the London market for which purchases occur in Hong Kong and sales occur in London in terms of ounces and U.S. dollars developed 10 years ago after the elimination of gold import and export control. A few years ago, the five big gold merchants that controlled the London gold market, the three big banks in Switzerland that controlled Zurich gold market, several investment firms actively engaged in the New York gold market, and a number of foreign banks were all engaged in the gold business. However, since last year, some banks have reduced their activities in the gold business. This year this reduction of activities in the gold business has spread to firms that deal primarily in gold. In early March, the U.S. Tianhui [phonetic] Co. and the Wansheng Securities Co. announced they would end their business and withdraw from the local branch of the London gold exchange. The Luofuji [phonetic] Co., which was listed among the five great gold firms of London, earlier announced a cessation of business activities on the night market, while the Jinbaoli [phonetic] Co., Ltd. announced at the end of October that it would close its only local office in Hong Kong--Jinbaoli Pacific--ending the gold exchange activities it had carried on in the region for 9 years. The reason these firms reduced or ended their gold dealing was the decrease in business.

The gold futures market of the commodity exchange market was also sluggish. According to statistics, the total volume of sales in gold futures for the first 9 months of this year was 4,405 batches (with 100 ounces to a batch). Although this was a clear 0.6-percent increase over the same time last year, it presented a sharp reduction compared to the last few years. Given the daily average of approximately 25 batches it would be completely justified to say that the Hong Kong gold futures market has fallen into a state of sluggishness.

Business in the "night gold shop" has slackened compared to its previously flourishing state. The "night gold shop" is a channel for the trade of gold peculiar to Hong Kong, acquiring its name from the fact that gold exchange continues there at night. In the three years 1981 through 1983, "night gold shops" sprouted up everywhere and flourished for a while. But since this year they have declined, and many night gold firms have ceased to do business while some companies have moved out of shop spaces on the street level to upstairs for less rent. This reflects the great decrease in gold transactions via this channel.

Hong Kong is among the sites with largest gold inflow in the world, and is the major transshipment place for gold in Southeast Asia. This is Hong Kong's main support in achieving and maintaining its central position in the international gold exchange. Since this year there have been no changes in gold inflow and transshipping through Hong Kong, the growth rate has

fallen. In the first 8 months the influx of gold bars increased 29 percent, while the figure for the first 8 months of 1984 compared to all of 1983 increased more than three times.

#### External and Internal Factors of Equal Importance

People may recall that at the world gold conference convened last May by Englands FINANCIAL TIMES in Hong Kong, someone offered the following opinion: the leading position of Hong Kong's gold market in Asia may erode with each passing day. Faced with the year-long decline in Hong Kong's gold exchange, people naturally are paying close attention to this problem: Is the international position of Hong Kong's gold market really declining? It seems that in order to answer this question requires first of all, discovering the reason for the stagnation of Hong Kong's gold market and also a comparison between it and other major gold markets.

The main reason for the stagnation of Hong Kong's gold market is the low price of gold and the lack of fluctuations. They treated the gold as a combination of security for investment, profiteering through speculation and general merchandise. But the players are primarily interested in investment and speculation, while the ability of gold in attracting investors or speculators is decided to a large degree by the trends and changes in the price of gold: Investors can only be attracted when gold prices fluctuate, and that profit is not lower than the profits from other investments. Speculators have the opportunity to make profit only when price changes are fairly large. However, for the past year market conditions suitable to attracting investors and speculators have not appeared in Hong Kong. The figures have shown that gold prices in Hong Kong for the past year have neither risen nor fluctuated greatly. Therefore, short-term speculators have basically withdrawn completely from the market, leaving only a minority of specialized investors.

The stagnation of the Hong Kong gold market is definitely related to the system whereby the Hong Kong dollar is pegged to U.S. dollars. Although Hong Kong's gold prices sometimes control world gold prices, prices are generally decided by the New York and London markets. When the Hong Kong yuan conversion rate fluctuates, one can make a profit by utilizing these changes as well as the fluctuations in the gold price. This is because the gold price in Hong Kong yuan rises and falls along with the rise and fall of the Hong Kong dollar-U.S. dollar conversion rate. However after pegging the Hong Kong dollar to the U.S. dollar, conversion rates have longer had an effect on gold prices. This represents, in fact, a loss of opportunity to make a profit for the players.

The first factor is the more important of the above two factors, and this factor was not brought into play by reasons internal to Hong Kong, but came about due to the slowing of the rate of inflation in the West, the strengthening of the U.S. dollar, high U.S. interest rates, falling petroleum prices and "counterreserves" (this refers to when many players purchased large quantities of gold for reserve when gold prices fell from the 1980 high to \$500 per ounce in early 1984, throwing it back onto the market

later when gold prices rose slightly). Therefore the depressing effect on gold transactions that resulted was not limited to the Hong Kong market, but rather developed into a worldwide trend. In fact, business on the New York and London gold markets has also similarly declined. The total amount of transactions in gold futures on the New York Commodities Exchange showed a daily average 12-percent decrease from 1983 to 1984, and another approximate 10-percent decrease in the first half of this year. In June trading was ended on the London gold market due to the nonstop reduction of business transactions. Due to a fall in trade volume in the other two competing markets, Hong Kong gold market cannot be taken as indicative of a failing position on the international gold scene.

#### Intensified Competition Cannot Be Ignored

It is even more difficult to maintain than to start a business. Hong Kong's leading position on the Far East gold market is the result of a great deal of effort. To maintain this position will require dealing with even bigger challenges. The major reason for this is: an important condition in the development of Hong Kong's gold market over the last 10 years or so--the basic lack of regional competition--has already disappeared.

Hong Kong had the first gold exchange in the Far East and was the first to eliminate controls over the gold trade, which made its development into a central place of transit and trade of gold inevitable. But beginning in the latter half of the 1970's, Singapore, Malaysia, Japan, and other countries in the region eliminated or liberalized their controls over the gold trade. In recent years the volume of gold flow into Japan has exceeded that of Hong Kong, and the amount entering Singapore has sometimes been greater than Hong Kong's as well. A more serious challenge is the establishment in Singapore, Sydney, and Tokyo in 1978, 1981, and 1982, respectively, of gold futures exchange markets, and the adoption by the relevant authorities of policies designed to stimulate trade and replace Hong Kong in its leading position in the gold market. For example, the Singapore gold exchange has been reorganized and expanded to become a financial futures exchange attracting banks, gold dealers, and products and securities brokers from the United States, Europe, Japan, and Southeast Asia as members. It has also adopted a system of exchange linking it up with the Chicago Commodity Exchange Market. Recently Singapore authorities decided to allow its residents to invest government bond funds in gold. The futures exchange of Sydney, Australia has already established close contacts with the New York Commodity Exchange. Japan has not only gone ahead of Hong Kong and established a financial futures exchange market in Tokyo, but has also recently greatly loosened restrictions on foreign banks and commodities and securities firms doing business in Japan. In light of all this, Hong Kong may not only lose business from the above countries, but from other nations as well.



It should be noted that in the development of their gold markets, conditions in Tokyo and Singapore are no less favorable than in Hong Kong. For example, like Hong Kong they are in a position to link up with the New York and London gold markets on a 24-hour-a-day basis, and possess developed systems of telecommunications. Tokyo's market capacity is far greater than Hong Kong's. Hong Kong can no longer afford to ignore its competition. Of course, it should be realized that Hong Kong still has some advantages in this competition, including loose controls over foreign exchange, a multiplicity of avenues of investment, a vast foundation of customers, convenience in commercial language (especially in relation to Japan), and so on. More important is the fact that the situation behind the predicted waning of the position of Hong Kong's gold market has already clearly changed. Hong Kong's murky future prospects and unstable financial market of last May have disappeared, perhaps forever. This is a favorable condition for the continued development of Hong Kong's gold market in competition. Therefore, the problem now is how to utilize these favorable conditions to strengthen the ability of Hong Kong's gold market to attract investors, especially customers from outside Hong Kong. This will require cooperation between and continued efforts of the authorities and the financial world.

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